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In The

Supreme Court of the United States

October Term, 1994

WINBACK AND CONSERVE PROGRAM, INC., and ALFONSE G. INGA,

Petitioners,

v.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Third Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the Third Circuit erred in holding that a principal may be held vicariously liable for the infringing actions of its independent contractors in an action brought pursuant to Section 43(a) of the Lanham Act, where it is undisputed that the principal did not contribute to, authorize, ratify or encourage the infringing activity, and was not otherwise at fault.

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PETITION FOR WRIT OF CERTIORARI

The petitioners, Winback and Conserve Program, Inc. (hereinafter "Winback") and Alfonse G. Inga (hereinafter "Inga") respectfully request that a Writ of Certiorari be issued to review a decision of the United States Court of Appeals for the Third Circuit in this case.[1]

OPINIONS BELOW

The District Court's May 12, 1994 opinion denying AT&T's motion for a preliminary injunction is reported at 851 F.Supp. 617 (D.N.J. 1994) and is reprinted at pages 1a to 40a of the Appendix to this Petition. The Third Circuit's December 9, 1994 opinion reversing and remanding the District Court's Order is published at 42 F.3d 1421 (3rd. Cir. 1994) and is reprinted at 41a to 98a of Petitioner's Appendix.

JURISDICTION

The United States Court of Appeals for the Third Circuit issued its decision on December 9, 1994. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

[1] The parties listed in the caption were the only parties in the courts below.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

15 U.S.C. § 1125 - **False Designations of Origin and False Descriptions Forbidden**

(a)(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which –

(A) Is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection or association of such person with another person, or as to the origin, sponsorship or approval of his or her goods, services, or commercial activities by another person, or

(B) In commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

* * *

STATEMENT OF THE CASE

Petitioner Winback[2] is an aggregator and reseller of 800 inbound telecommunications services which offers its customers (also referred to as "end users") access to the AT&T 800 inbound network at a discount price. Put simply, Winback purchases a large volume of 800 service from AT&T at a discount. In turn, Winback resells portions of the 800 service purchased from AT&T to smaller entities which would not otherwise be eligible for such a large discount from AT&T. By purchasing bulk long distance service from AT&T and reselling said service to smaller entities, two goals are accomplished, to wit: (1) the end users are able to gain access to the AT&T 800 inbound network at a lower rate than they would be able to obtain on their individual accounts; and (2) Winback earns a profit by retaining a portion of the discount.

The advent of the telecommunications reselling business can be traced to a 1976 Federal Communications Commission Ruling which required AT&T to offer for resale its long distance telecommunications services. *See, Regulatory Policies Concerning Resale and Shared Use of Common Carrier Services and Facilities*, 60 F.C.C. 2d 261 (1976) (Resale and Shared Use Order) amended 61 F.C.C. 2d 70, modified on reconsideration 62 F.C.C. 2d 588 (1977), aff'd sub nom. *American Telephone and Telegraph Co. v. FCC*, 572 F.2d 17, 20 (2d Cir.), cert. denied, 99 S. Ct. 213

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[2] Petitioner Inga is the President of Winback. Hereinafter Winback will refer to both Winback and Conserve Inc. and Alfonse G. Inga.

(1978).[3] This provided an opportunity for entrepreneurs such as Winback to subscribe to high-volume/high-discount long distance telecommunication service that uses access to the AT&T Long Distance Network to provide long distance service to its own customers. By purchasing large blocks of long distance service ordinarily reserved for large corporations, companies like Winback are able to provide service to its customers over AT&T's network at a discount which these smaller entities would not otherwise be able to obtain.

Winback does not employ any individuals who engage in the marketing and sale of its product. Instead, it utilizes a network of sales or marketing representatives to market its 800 services discount plan. The network consists of approximately fifty (50) different marketing/sales agencies. In turn, those agencies employ and/or contract with approximately one thousand (1000) individual sales representatives. In ruling on AT&T's motion for a preliminary injunction, the District Court found the following facts with respect to the sales representatives: (1) The agencies generally market a wide array of telephone services offered by various parties, including other aggregators and in some instances the agency's own aggregation

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[3] AT&T is not a willing participant in the aggregation/resale business. In fact, the FCC recently issued a Notice of Apparent Liability for Forfeiture and Order to Show Cause requiring AT&T to show cause as to why it should not be ordered to provide service to two (2) resellers who requested service under Contract Tariff No. 383. *In re: AT&T Communications*, FCC 94-354 (released January 4, 1995). A copy of the FCC's Notice is reprinted at pages 99a to 114a of Petitioner's Appendix.

plan; (2) The sales representatives do not work at Winback's locations; (3) The representatives are not reimbursed for nor are they provided with any supplies or equipment necessary to operate the office; (4) The representatives do not receive salaries from Winback but rather are compensated on a pure commission basis by Winback for the sales which they make; (5) The representatives are not told how to select customers; (6) The representatives are not obligated to Winback in terms of quotas, hours, length of commitment, etc. *AT&T v. Winback and Conserve Program*, 851 F.Supp. 617, 619 (D.N.J. 1994); Pet. App. 3a.

The instant dispute arises out of the solicitation of end users by various individual sales representatives who market the Winback Program. AT&T alleges that in contacting and soliciting end users for the Winback plan various sales representatives either improperly state that they are with AT&T or falsely mislead the end user into believing that the Winback program is an official AT&T program which is offered by or affiliated with AT&T. AT&T sought an injunction against Winback and Inga based upon the allegedly infringing activities of the sales representatives. Significantly, AT&T did not allege that either Winback or Inga were liable on a theory of contributory infringement, but rather argued that Winback and Inga were vicariously liable for the trademark violations of the sales representatives based upon an agency theory.

The District Court denied AT&T's application for a preliminary injunction. Pet. App. 1a-40a. The Court began its analysis by examining Section 43(a) of the Lanham Act, which prohibits "any person" from engaging in certain delineated misleading acts. *Id.* at 18a. With this statutory language in mind, the Court proceeded to determine

whether Winback and/or Inga qualify as "any person" within the meaning of the Lanham Act.

The District Court concluded that based upon the facts presented at the hearing, the "sales representatives are independent contractors over whom [Winback] and Inga exercise insufficient control to amount to an agency relationship." *Id.* at 22a. The Court also made the factual finding that "no proof was submitted to the court to establish that [Winback] or Inga advised, consented to or participated in the alleged misrepresentations." *Id.* at 23a. The Court went on to conduct an analysis of analogous cases in the area of licensor/licensees and concluded that as in the licensing cases, Winback did not exercise the degree of control over the sales representatives necessary to establish a principal agent relationship. *Id.* at 28a.

The Court also addressed the copyright cases cited by AT&T and concluded that in those cases where principals were held vicariously liable for the actions of their agents, the evidence indicated that the principal participated in or ratified the prohibited activity of the agent, at least to some extent. Where, as here, Winback could not practically be involved with the operations of the individual sales representatives, the imposition of vicarious liability on either Winback or Inga was unwarranted. *Id.* at 32a. Accordingly, as AT&T failed to establish a likelihood of success of the merits based upon the lack of an agency relationship between Winback and the sales representatives, the Court denied AT&T's application for a preliminary injunction.[4]

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[4] The District Court also found that the issuance of a preliminary injunction was not justified because AT&T had failed

The Third Circuit vacated the District Court's Order and remanded the matter for further proceedings. *AT&T*

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to establish that the confusion among the end users was solely attributable to the sales representatives. *Id.* at 33a to 36a. The Court pointed out that the nature of the product itself gives rise to some degree of confusion, due to the fact that the end user is actually receiving "the same telephone product and services from AT&T as he or she would have as a direct customer of AT&T." *Id.* at 34a. The Court also found that at least some of the confusion was caused by AT&T itself, in that AT&T had required that the end users complete certain forms bearing the AT&T initials and the AT&T Globe symbol. *Id.* at 34a to 35a.

Lastly, the Court addressed the equitable factors which influenced its decision. *Id.* at 36a. The Court paid significant attention to the fact that "the uncontroverted testimony and documentary proof was that in the instances where plaintiff brought the objectionable acts of the sales representatives to the attention of Inga, Inga took appropriate steps to reprimand and discipline the sales representative." *Id.* at 36a. The Court rejected plaintiff's argument that the fact that Inga takes such steps is evidence of the principal/agent relationship. *Id.* at 36a, n. 11. The Court reasoned that these actions do not create an agency relationship, but rather operate as a defense to liability for contributory infringement. The Court also found that unlike in *American Soc. of Mech. Engineers v. Hydrolevel Corp.*, 456 U.S. 557, 102 S. Ct. 1935 (1982), where the Supreme Court determined that a non-profit trade association was in the best position to prevent acts of anti-competitive behavior among its committee members, the testimony in this case established that the Winback product was marketed through a massive web of sales representatives who were either employed by or under contract with the individual sales/marketing agencies. Given such a structure, the Court found that "it is hard to imagine what more AT&T would have Inga do to prevent these independent agencies from engaging in objectionable marketing tactics in the first instance." *Id.* at 38a. The Court reiterated and emphasized the fact that insufficient proof had been presented to support a claim that Inga induced the acts of infringement, was willfully

v. Winback & Conserve Program, Inc., 42 F.3d 1421 (3rd Cir. 1994); Pet. App. 41a to 98a. Although the Court recognized that neither Winback nor Inga had engaged in any infringing activity and conceded that AT&T could not recover based upon a theory of contributory infringement, the Court nonetheless concluded that Winback and Inga could be held vicariously liable for the foreseeable infringing actions of the independent contractor representatives. The Third Circuit summarized its holding as follows:

> When a principal authorizes its independent contractor agent to conduct and conclude a transaction with third parties on the principal's own behalf, and the principal benefits financially from the contracts, the principal will be liable in action brought pursuant to Section 43(a) of the Lanham Act based upon the agent's *foreseeable* infringing actions upon which it would be reasonable for the third party to rely, provided the third party has no notice that the representations are unauthorized.

Id. at 82a to 83a (emphasis in original).

A brief summary of the Third Circuit's reasoning in formulating its holding is instructive. First, the Court addressed this Court's decision in *Central Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A.*, ___ U.S. ___,

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blind to the acts of infringement, or was negligent in not preventing the acts of infringement. The Court concluded that AT&T remains free to seek injunctive relief against the sales or marketing agencies who employ or contract the representatives who are engaging in the allegedly misleading practices. *Id.* at 38a to 39a.

114 S. Ct. 1439, 1446 (1994), in which this Court declined to extend liability under § 10(b) of the Securities and Exchange Act to include a cause of action based upon aiding and abetting. The Third Circuit distinguished this Court's holding in *Central Bank*, reasoning that the Court's reluctance to broaden the scope of conduct prohibited by the Exchange Act was based upon the nature of aiding and abetting liability itself. *Id.* at 61a. In contrast, in this case, the Third Circuit explained, by imposing liability on an agency theory, the Court would not be expanding the category of affirmative conduct proscribed by the relevant statute, but would rather be deciding on whose shoulders to place responsibility for conduct indisputably proscribed by the relevant statute. *Id.* at 63a.[5]

Next, the Court considered whether Section 43(a) would authorize a cause of action based upon agency liability. *Id.* at 68a. The Court turned to the cases in which the courts have imposed liability based upon contributory infringement under the Lanham Act and concluded that "in certain instances, secondary, indirect liability is a legitimate basis for liability under the Federal Unfair

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[5] It is not clear why the Third Circuit went to such great lengths to distinguish aiding and abetting liability from agency liability, given the fact that based upon the undisputed testimony in the District Court, neither Inga nor Winback could have been held liable for aiding and abetting the sales representatives. Indeed, it would appear that aiding and abetting liability under the Lanham Act would simply fall within the rubric of contributory infringement. One may aid and abet a crime; one contributes to the commission of a tort.

Competition Statute." *Id.* at 69a. Although the Court recognized that AT&T had a right to sue the sales representatives directly under Section 43(a), it found that it would be "inconvenient" for AT&T to initiate suit in separate jurisdictions against every independent contractor which may have violated its rights. *Id.* at 71a. The Court concluded that "the only feasible way for AT&T to assert its federal rights would be to sue the principal, who, if an agency relationship was established, was able to exercise at least some control over its agents who authorized the sales representatives to enter into contracts on its behalf, and who receives direct financial benefits from those contracts." *Id.*[6]

Based on these considerations, the Third Circuit held that agency principles applied to the instant dispute. *Id.* at 72a. However, the Court found that the District Court erred by failing to adequately consider the various theories of agency under which Winback could be held responsible for the torts of the sales representatives. Specifically, the Court found that the District Court should have considered "(1) whether Winback is liable for its representatives' acts, despite the fact that the representatives are independent contractors and despite the absence

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[6] In fact, AT&T has filed an action against the individual sales representatives. *AT&T Corp. v. Agency Services, Inc. and Thomas Salzano, et al,* Civil Action No. 94-2661, (D.N.J.) (filed June 8, 1994). AT&T alleges that the individual sales representatives constitute a defendant "class" within the meaning of Fed. R. Civ. P. 23. In addition, with respect to AT&T's claim against Inga and Winback, AT&T is aware of the identity and location of a number of sales representatives which it maintains engaged in infringing activities.

of a master-servant relationship; and (2) whether the representatives, even if not agents, were acting with the apparent authority of Winback." *Id.* In applying the principles of agency law to the facts of the case at bar, the Third Circuit explained that the District Court did not conduct a proper agency analysis because it failed to consider whether the sales representatives were agent independent contractors or non-agent independent contractors.[7] In addition, although the court recognized that a principal is generally not vicariously liable for the torts of its independent contractors where the principal did not direct or participate in them, the Court explained that a principal may be held liable for the torts of its independent contractors under certain circumstances. The Court then turned to cases and treatises which dictate that a principal may be liable for the misrepresentations of independent contractors in a sales setting and concluded

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[7] A careful review of the District Court decision reveals that this is not in fact the case. The District Court considered all factors relevant to an agency analysis under New Jersey law, and concluded that, based upon the *facts* established at the hearing, the sales representatives where simply independent contractors over whom Winback exercised insufficient control to amount to an agency relationship. Close scrutiny of the District Court's reasoning reveals that the Court was aware that independent contractors could constitute agents under certain circumstances, however, such circumstances were simply not present in this case. While petitioners view this as a fundamental flaw in the Third Circuit's reasoning, for the purposes of the instant petition, petitioners will focus on the Third Circuit's erroneous statutory interpretation, i.e., that the Lanham Act may be interpreted to hold principals vicariously liable for the actions of their independent contractors, even in the absence of any contributory infringement on the part of the principal.

that "although liability at common law generally was limited to actions by the purchaser for deceit, we see no reason why the doctrine should not be transplanted into the area of unfair competition." *Id.* at 82a. The Court concluded that a principal may be held liable for the foreseeable[8] infringing actions of its independent contractor agents under Section 43(a) of the Lanham Act.[9] The Court then remanded the matter to the District Court to conduct an analysis of whether the sales representatives are agent independent contractors or non-agent independent contractors.

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[8] The Court did not provide any guidance as to what might have been foreseeable under the facts of this case. For example, it is certainly foreseeable that, out of a sales force of approximately 1,000 independent contractors, one of them may engage in some sort of infringing activity. The Court did not, however, delineate under what circumstances a Court would find such actions to be foreseeable for the purpose of imposing vicarious liability.

[9] The Third Circuit also held that even if the District Court were to conclude that the sales representatives were not agents, Winback and Inga could still be held liable for the allegedly infringing actions of the sales representatives if the representatives were acting under "the apparent authority" of Winback. The doctrine of apparent authority, the Court explained, "arises in those situations where the principal *causes* persons with whom the agent deals to reasonably believe that the agent has authority despite the absence of an actual agency relationship." *Id.* at 86a, citing *Bartacheck v. Fidelity Union Bank/First National State*, 680 F.Supp. 144, 148-149 (D.N.J. 1988) (emphasis supplied).

REASONS FOR GRANTING THE WRIT

This Court should review the decision of the Third Circuit because it represents an unprecedented expansion of liability under the Lanham Act – an expansion which is simply not authorized in accordance with the plain language of the Act. The Lanham Act creates a cause of action against "any person who" engages in certain prohibited activities. In every case in which a court has been called upon to address a defendant's liability under Section 43(a) of the Lanham Act, the court has only found a defendant to be liable as a result of that defendant engaging, at least to some extent, in the activities proscribed by the Act. The Third Circuit's opinion in Winback expands the scope of liability under the Lanham Act to an extent that is inconsistent with established precedent and the intent of Congress.

It is undisputed that neither Winback nor Inga contributed to, or was willfully blind to, the allegedly infringing actions of the sales representatives. Indeed, the District Court explicitly found that in every instance in which AT&T complained to Inga about the behavior of the sales representatives, Inga took appropriate steps to discipline the representative. The Third Circuit's opinion expands the scope of the Lanham Act to hold a seller strictly liable for the actions of its twice removed independent contractors in the absence of any contributory infringement by the seller. Such a drastic expansion of the scope of liability for trademark infringement should be accomplished via legislative reform, not judicial construction.

The Third Circuit's decision is also contrary to this Court's holding in *Inwood Laboratories v. Ives Laboratories*, 456 U.S. 844, 102 S. Ct. 2182 (1982). In that case, the Court ratified the doctrine of contributory infringement and held that liability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another. *Id.* at 2188. A careful reading of the Court's opinion in *Inwood Laboratories*, however, indicates that this Court may not be willing to impose vicarious liability upon a seller for the infringing acts of its independent contractors merely because those acts are foreseeable. *See, Inwood Laboratories*, 102 S. Ct. at 2188, n. 13. This Court should issue a Writ of Certiorari so that the issue may be definitively resolved.

The Third Circuit's opinion likewise stands in contrast to the Court of Appeals' opinions in *Hard Rock Cafe Licensing v. Concession Services*, 955 F.2d 1143 (7th Cir. 1992) and *Mini Maid Services v. Maid Brigade Systems*, 967 F.2d 1516 (11th Cir. 1992). In those cases, the Court of Appeals refused to apply the strict form of vicarious liability as utilized by the Third Circuit in *Winback*. This Court should grant certiorari to resolve the split among the circuit courts as to when, if ever, vicarious liability is authorized under the Lanham Act.

ARGUMENT

I. THE THIRD CIRCUIT'S OPINION EXPANDS THE SCOPE OF LIABILITY UNDER THE LANHAM ACT TO AN EXTENT THAT IS INCONSISTENT WITH BOTH THE STATUTORY TEXT AND THE WEIGHT OF PRECEDENT

In reaching its decision, the Third Circuit reviewed case law and treatises which dictate that a principal may, under certain circumstances, be held liable for the misrepresentations of its independent contractors and concluded that it "saw no reason why the doctrine should not be transplanted into the area of unfair competition". *Id.* at 32. The reason for not transplanting the doctrine of vicarious liability into the Lanham Act, however, may be found in the text of the Lanham Act itself. The Act imposes liability upon "any person who" engages in certain prohibited activities. It is undisputed in this case that neither Winback nor Inga engaged in any of the prohibited activities delineated in the Lanham Act. The imposition of vicarious liability is simply not warranted under the plain language of the Act.[10]

In determining whether the imposition of vicarious liability is authorized under the Federal Unfair Competition Statute, the Court was bound to interpret the statute as written. *Central Bank v. First Interstate Bank,* 114 S. Ct.

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[10] Note that the type of strict vicarious liability adopted by the Third Circuit is distinguishable from holding a corporation liable for the infringing actions of its employees. The latter form of vicarious liability arises as a result of a corporation's status as a "person" under 15 U.S.C. § 1127 (Construction and definitions; intent of chapter).

1439 (1994). In applying the Court's reasoning in *Central Bank* to the facts of the instant case, it becomes clear that the Third Circuit erred in importing the common law doctrine of vicarious liability into the Lanham Act. In *Central Bank,* plaintiff bondholders sued a local building authority and a developer alleging that they had violated § 10(b) of the Securities and Exchange Act in issuing bonds. Plaintiffs also sued defendant Central Bank alleging that the Bank was "secondarily liable under § 10(b) for its conduct in aiding and abetting the fraud." *Id.* at 1443. The District Court granted summary judgment in favor of the Bank. The Tenth Circuit reversed, holding that party may maintain a private cause of action based upon aiding and abetting a § 10(b) violation. *Id.* The Supreme Court granted certiorari to resolve the continuing confusion over the existence and scope of § 10(b) aiding and abetting liability. *Id.* at 1444.

Consistent with prior practice, the Court began its analysis by examining the language of § 10(b). *Id.* at 1445. The Court rejected respondent's argument that the use of the phrase "directly or indirectly" in the text of § 10(b) could be interpreted as covering aiding and abetting liability. The problem with respondent's reasoning, the Court explained, "is that aiding and abetting liability extends beyond persons who engage, even indirectly, in a proscribed activity; aiding and abetting liability reaches persons who do not engage in the proscribed activities at all, but who give a degree of aid to those who do." *Id.* at 1447. The Court noted that Congress was perfectly capable of imposing aiding and abetting liability in the statute had it chosen to do so. *Id.* at 1448. The Court concluded:

> We reach the uncontroversial conclusion, accepted even by those courts recognizing a § 10(b) aiding and abetting cause of action, that the text of the 1934 act does not itself reach those who aid and abet a § 10(b) violation. Unlike those courts, however, we think that conclusion resolves the case. It is inconsistent with settled methodology in § 10(b) cases to extend liability beyond the scope of the conduct prohibited by the statutory text. *Id.*

Here, the Third Circuit's interpretation of the Lanham Act imposes liability on parties who are not within the scope of the Act's plain language. While it is true that *Central Bank* dealt with the scope of conduct prohibited by the statute, the Court's reasoning in *Central Bank* is equally applicable to the case at bar. In fact this is a more compelling case because there is no question that petitioners did not engage in any of the conduct proscribed by the Act. The only question here is whether the language of the Act permits the imposition of liability upon a principal for the infringing conduct of its independent contractors.

If Congress had intended to hold a principal vicariously liable for the scope of liability imposed below, it could easily have included language to that effect within the text of the statute.[11] The fact that Congress did not

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[11] See, e.g., 7 U.S.C. § 4, (Commodity Exchange Act) (holding principals liable for the violation of an agent); 47 U.S.C. § 217, (Wire and Radio Communications) (providing that common carriers shall be liable for the "act, omission, or failure of any officer, agent, or other persons acting for or employed by any common carrier or user, acting within the scope of his employment . . . ").

explicitly impose liability on a principal for the acts of its independent contractors under the Lanham Act, combined with the fact that there is no reported decision to date in which a court has found a principal vicariously liable for the infringing acts of its contractors, weighs heavily against any interpretation of the Lanham Act which would allow for the imposition of vicarious liability.[12]

In fact, this Court, in dicta, has indicated that it would be incorrect to hold a party liable on a contributory infringement claim merely because that party may have reasonably anticipated that a seller in the distribution chain may attempt to "palm off" its product as that of another. *Inwood Laboratories v. Ives Laboratories*, 456 U.S. 864, 102 S. Ct. 2182 (1982). In *Inwood Laboratories*, the Court found that the Court of Appeals erred in finding a manufacturer of a generic drug liable for the trademark infringement of pharmacists who mislabeled the drug with a competitor's registered trademark. *Id.* at 2188. The Court set forth the test for finding a manufacturer or distributor contributorily liable for trademark infringement:

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[12] Note that the concerns voiced by the dissenting Justices in *Central Bank* are not present in this case. Unlike in *Central Bank*, there is no long history of vicarious liability under the Lanham Act. See, *Central Bank*, 114 S. Ct. 1439, 1456 (1994). The Third Circuit recognized this, citing only one unreported Bankruptcy Court decision in which the Court, without analysis, found a principal to be vicariously liable for infringing acts of its agent acting with apparent authority. See *Winback*, Pet. App. at 70a, n. 15, citing *Dreamwerks Prod. Group Inc. v. Party Masters Inc.*, B.R. No. 91-22949, Bankr. LEXIS 711 1992 at 47-48 (N.D. Ill. April 23, 1992).

> If a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit. *Id.*

Justice White, in a concurring opinion, was concerned that the Court had adopted a "watered down" standard for contributory infringement. *Id.* at 2191. Justice White's concerns stemmed from the Court of Appeal's reasoning in holding the defendants liable for contributory infringement – the Court of Appeals found that based upon the manner in which the defendants marketed their generic drugs, they could have "reasonably anticipated" that their generic drug product would be substituted illegally by a substantial number of druggists. Justice White, quoting Judge Wyzanski in *Coca Cola Company v. Snow Crest Beverages, Inc.*, 64 F.Supp. 980, 988-989 (D.Mass. 1946), *aff'd*, 162 F.2d 280 (1st Cir.), cert. denied, 332 U.S. 809, 68 S. Ct. 110, 92 L. Ed. 386 (1947), observed that:

> Any man of common sense knows that in any line of business . . . there are some unscrupulous persons, who, when it is to their financial advantage to do so, will palm off on customers a different product from that ordered by the customer.

The mere fact, Justice White concluded, that the drug company might have anticipated that some illegal substitution would occur to some unspecified extent and by some unknown pharmacist, should not by itself be a predicate for contributory liability. *Inwood Laboratories,*

102 S. Ct. at 2192. Justice O'Connor, writing for the majority, stated that if the Court of Appeals had relied upon the "could reasonably anticipate" test to define the controlling legal standard, "the court indeed would have applied a 'watered down' and incorrect standard". *Id.* at 2188, n. 13.

Turning to the facts of the instant case, it appears that the Third Circuit's "foreseeability" test for the imposition of vicarious liability is simply another way of stating the "watered down" standard which has been previously rejected by this Court. As Justice White pointed out in his concurrence in *Inwood Laboratories*, it is foreseeable in any line of business that certain persons may engage in infringing activities when it is to their financial advantage to do so. *Inwood Laboratories*, 102 S. Ct. at 2192. Absent any intent on the part of the principal to induce the infringement, however, there is simply no basis upon which to hold the principal liable.

II. THE THIRD CIRCUIT'S OPINION STANDS IN CONFLICT WITH THE SETTLED LAW OF OTHER CIRCUITS

The Third Circuit's opinion also conflicts with the Court of Appeals' holdings in *Hard Rock Cafe Licensing v. Concession Services*, 955 F.2d 1143 (7th Cir. 1992) and *Mini Maid Services Co. v. Maid Brigade Systems, Inc.*, 967 F.2d 1516 (11th Cir. 1992). In those cases, the courts rejected the strict form of vicarious liability as adopted by the Third Circuit in *Winback*.

In *Hard Rock*, the Seventh Circuit declined to apply the more expansive doctrine of vicarious liability applicable to copyright violations to a violation under the Lanham Act. 955 F.2d 1143, 1150. The Court reiterated the test as set forth by the Second Circuit, which held that a defendant is vicariously liable for the copyright violations of its agents if it has "the right and ability to supervise the infringing activity and also has a direct financial interest in such activities." *Id.* at 1150, citing, *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2nd Cir. 1971). The Court relied on this Court's holding in *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439, n. 19, 104 S. Ct. 774, 787 n. 19, 78 L. Ed. 2d 574 (1984), in which the court stated that secondary liability for trademark infringement should be more narrowly drawn than secondary liability for copyright infringement, and concluded that the Second Circuit's test for vicarious liability in copyright cases is inapplicable to trademark cases.

Similarly, in *Mini Maid*, the Eleventh Circuit refused to adopt a "reasonable diligence" test for the imposition of vicarious trademark liability. *Mini Maid*, 967 F.2d 1516, 1517. In that case, plaintiff sued a franchisor alleging that it was liable for failing to prevent the trademark infringement allegedly committed by its franchisee. *Id.* at 1518. The District Court ruled that "a franchisor may be liable for its failure to exercise reasonable diligence to prevent a franchisee from violating the trademark laws." *Id.* at 1519. On appeal, the Eleventh Circuit found that the District Court committed legal error in holding the franchisor liable for the franchisee's infringement on the ground that the franchisor failed to exercise reasonable

diligence to prevent the violation. *Id.* at 1519. Relying upon this Court's reasoning in *Inwood Laboratories,* the court held that a "franchisor may be held accountable only if it intentionally induced its franchisees to infringe another's trademark or if it knowingly participated in a scheme of trademark infringement carried out by its franchisees." *Id.* at 1522. With regard to the elements of intent and knowledge, the Court directed that the District Court consider "the nature and extent of the communication between a franchisor and its franchisees regarding the infringing acts; specifically the court should decide whether or not the franchisor explicitly or implicitly encouraged the trademark violations." *Id.*

Thus, both the Seventh Circuit and the Eleventh Circuit, in analogous trademark infringement cases, have refused to apply the strict form of vicarious liability adopted by the Third Circuit. This split among the Circuits will clearly result in inconsistent judgments within the federal system regarding the application of vicarious liability under the Lanham Act. This Court should issue a Writ of Certiorari so that the question of whether strict vicarious liability exists under the Lanham Act may be definitely resolved.

The imposition of vicarious liability upon principals which utilize the services of independent contractors to market their product will have a tremendous impact on all of the manufacturing industries, franchisors and other businesses which utilize the services of independent contractors. Small businesses, such as petitioner Winback, cannot afford to have a nationwide, salaried marketing force. In order to compete with monolithic enterprises such as AT&T, they must engage in marketing through

small independent marketers as Petitioner does. Section 43(a) of the Lanham Act was designed to make competition fair, not to inhibit it. If small businesses must take on the liability added to them by the decision below, then the big businesses with which they compete will have an additional competitive advantage, both in marketing and in the use of litigation to distract small competitors. Certainly, AT&T is entitled to have legal avenues to protect its intellectual property rights, and it has them in the ability to bring actions against wrongdoers. If AT&T can succeed in actions like this, its ability to enforce its intellectual property rights will be made easier, but at the expense of inhibiting competition. Which is the more desirable economic goal – ease of enforcement by AT&T or more vigorous competition – is a policy judgment for the national legislature, not the Courts. By appending to the Lanham Act a common law expansion of liability not within the text, the Court below made this policy and economic judgment. A Court simply is not equipped with the fact finding mechanism to make an informed judgment on so important a matter. Certainly, a decision with such far reaching effects for a multitude of small businesses should not be made on the sparse preliminary injunction record of one case.

CONCLUSION

The Petition for Writ of Certiorari should be granted.

Respectfully submitted,

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DATED: March 9, 1995

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

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FOR PUBLICATION

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LETTER OPINION
ORIGINAL ON FILE WITH CLERK OF THE COURT

(Filed May 12, 1994)

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Re: American Telephone and Telegraph Company
v. Winback & Conserve Program, Inc. and
Alfonse G. Inga
Civil Action No. 93-5456 (NHP)

Dear Counsel:

This matter comes before the Court on plaintiff's application for a preliminary injunction. For the reasons discussed below, plaintiff's application is **DENIED.**

I. FINDINGS OF FACT

A. Background

Plaintiff, American Telephone and Telegraph Company, ("AT&T"), is engaged in the business of marketing and providing a wide variety of telecommunications services. AT&T markets its long distance telecommunications services under a variety of service marks and trademarks including its initials "AT&T" and its "globe" symbol. Defendant, Winback & Conserve Program, Inc., ("WCPI" or "Winback"), is an aggregator of 800 inbound telecommunications services which offers end users access to the AT&T 800 inbound network at a discounted price. Defendant, Alfonse G. Inga, ("Inga"), is President of WCPI.

The advent of resale and aggregation in the telecommunications industry can be traced to the 1976 ruling of the Federal Communications Commission, (the "FCC"), that required AT&T to offer for resale its long distance telecommunications services. *See Resale and Shared Use of Common Carrier Domestic Public Switched Network Services,* 60 F.C.C.2d 261 (1976); 83 F.C.C.2d 167 (1980); *see also*

AT&T v. FCC, 572 F.2d 17, 20 (2d Cir.), *cert. denied*, 439 U.S. 875 (1978). The FCC requirement that AT&T offer its long distance telecommunications services for resale created the opportunity for businesses, such as WCPI, to subscribe to a high volume/high discount long distance telecommunications service that uses access to AT&T's long distance network to provide its own long distance service to its own customers.

WCPI does not employ any individuals on its staff who engage in the marketing and sale of the Winback product. Instead, WCPI utilizes a network of sales or marketing representatives to market its 800 service discount plan. The network consists of approximately 50 different marketing/sales agencies. Those agencies in turn employ and/or contract with the individual sales representatives, numbering approximately 1000. The agencies generally market a wide array of telephone services offered by various parties, including other aggregators and in some instances tne agency's own aggregation plan. The sales representatives do not work at WCPI locations. They are not reimbursed for nor are they provided with any supplies or equipment necessary to operate the office. They do not receive salaries from WCPI but rather are compensated on a pure commission basis by WCPI for the sales which they make. They are not told how to select customers. They are not obligated to WCPI in terms of quotas, hours, length of commitment, etc.

They are, however, supplied with two forms from WCPI which make reference to WCPI in some way and which are required by AT&T to effectuate the transfer of service from the existing carrier to WCPI. Additionally, there was testimony to the effect that at least one of the

representatives contacts Inga on a periodic basis for advice concerning the marketing of the product. Inga testified that he has taken steps and believes that it his responsibility to take such steps to "police" the representatives in the marketing of the product to avoid misrepresentations in the solicitations.

Essentially, the process works as follows: The sales representative makes the contact with the end user and offers to the end user an opportunity to join the WCPI discount plan. The benefit of joining the WCPI plan is to allow the end user to maintain its current access or to gain access to the AT&T 800 inbound network at a rate below the end user's current rate or a rate that the end user could not obtain on its own individual account. If the end user is interested in joining the WCPI plan, the sales representative forwards various forms to the end user, including a facsimile cover sheet, various informational documents, a Transfer of Service Agreement and Notification form ("transfer form") and a Main Billed Telephone Numbers Location List ("main billed form"). The end user then fills out the transfer form and the main billed form and returns them to the sales representative. The representative will then forward the forms to the primary marketing or sales agency. The agency forwards the forms on to the appropriate carrier or aggregator, in this case WCPI. WCPI then forwards the transfer form and main billed form to AT&T.

Once the end user joins the WCPI plan, the end user becomes the customer of WCPI while WCPI is the customer of AT&T. Notwithstanding this transfer of service, however, AT&T directly bills the end user and the end user makes payment directly to AT&T. Additionally, Inga

testified that in many cases WCPI executes letters of agency which essentially allow the end users to receive the services associated with access to the AT&T network directly from AT&T. At the end of each month, AT&T forwards to WCPI a check in the amount of the difference between the discount earned by WCPI and the average discount that WCPI passes on to the end user. WCPI similarly sends a commission check to the marketing representatives for its share of the sales on a monthly basis.

The instant dispute arises out of the solicitation of end users by various sales representatives who market the Winback program. AT&T alleges that in contacting and soliciting end users for the Winback plan various sales representatives either improperly state that they are with AT&T or falsely mislead the end user into believing that the Winback plan is an official AT&T program which is offered by or affiliated with AT&T. AT&T contends that WCPI and the sales representatives are engaging in the unauthorized practice of using the letter designation AT&T and the AT&T globe symbol predominantly and pervasively throughout Winback advertisements, other marketing materials and forms provided to the end users. Complaint ¶ 17, 24. AT&T further claims that various materials being circulated and used by WCPI and the various sales representatives indicate that the forms would be submitted to a nonexistent "AT&T Input Department." *Id.* ¶ 23. AT&T also claims that WCPI and the sales representatives in the marketing of the Winback product regularly make oral misrepresentations to end users indicating that they are "the marketing arm of

AT&T," *id.* ¶ 25, are from AT&T or are affiliated with AT&T.

AT&T came before the Court in December of 1993 seeking a Temporary Restraining Order ("TRO") and an Order of Contempt against defendant Inga for violation of a final Consent Order entered May 7, 1992 in the related case of *AT&T v. One Stop Financial, Inc.*, Civil Action No. 92-1489. In support of its application AT&T presented to the Court, *inter alia*, approximately ten certifications from various end users who claim to have been misled as to the origin of the product offered by the sales representatives who were marketing the Winback program. On that day, this Court indicated that the contempt proceeding would not be heard until discovery had been completed. The Court did, however, hear the parties on plaintiff's application for a TRO. Finding substantial credible evidence that instances of infringement were occurring, this Court was persuaded at the time that the imposition of temporary restraints was necessary. *See* Transcript of Proceedings 12/15/93 at 57-66.

The restraints placed upon defendants, together with their officers, agents, servants, employees, attorneys and all persons in active concert or participation with them, or who market under the name of WCPI, at that time included a prohibition on the use of any oral or written communication falsely designating defendants' goods and services as being those of AT&T, sponsored by AT&T, or affiliated with AT&T. Similarly, defendants were enjoined and restrained from engaging, producing, creating, encouraging, aiding or abetting any oral communication, advertisement, label, sign, flyer, envelope,

correspondence or any other oral or written communication which enables defendants to pass off their goods or services as being those of AT&T. The Order also included a mechanism whereby defendants were required to serve the Order upon all persons identified on a list as WCPI's primary agents. The so-called primary agents were then required to serve the Order on each and all persons or entities whom the primary agents had authorized to market under the name, mark, or authority of WCPI.

The parties consented to the extension of the TRO until such time as discovery was completed with respect to the preliminary injunction application and this Court's decision thereon. During discovery the depositions were taken of each of the approximately ten end users whose certifications were submitted in support of the TRO application. All certifications and depositions were made a part of the record for the Court to consider in determining the instant motion.[1] Additionally, at the hearing on the preliminary injunction application, Inga and Thomas Salzano, the President of Agency Services Group, Inc.,

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[1] The Court notes that the certification and deposition of a one Arthur Holloway were also taken during this proceeding. AT&T submitted the Holloway testimony in support of an allegation that certain sales representatives were forging the signatures of end users. At the hearing on plaintiff's application for a TRO, this Court declined to place any significance on the Holloway testimony because it was the only proof of forgery offered by plaintiff. Because plaintiff has not brought any additional proofs to the Court on this issue and because Inga testified that he terminated his relationship with that particular agency upon learning of the incident, the Court finds the Holloway testimony similarly insignificant with respect to plaintiff's application for a preliminary injunction.

one of the marketing agencies with whom Inga deals, testified. Because the issue before the Court is extremely fact sensitive, a brief summary of the proofs adduced in the record is necessary.

B. Summary of Evidence

1. Plaintiff's Proofs

a. Debra Dahl Vogel

Debra Dahl Vogel, the Telecommunications Network Coordinator for a concern known as The Toro Company, testified that sometime during October 1993 she received a facsimile transmission entitled "Winback & Conserve Program for AT&T 800 Customers." The first page of the transmission described certain details of the Winback program ("information form"). The second page was a main billed form on which the words "Winback & Conserve Program" appeared prominently at the top of the page. Vogel testified that as a result of the appearance of the documents and their failure to designate Winback & Conserve Program as a separate entity, she believed them to be official AT&T documents. Vogel Certif. at ¶ 9; Vogel Dep. at 14-15.

b. Ekaterina Hall and Karen Kelly

Ekaterina K. Hall is a secretary and receptionist at FMC Corporation. Karen Kelly is the office manager for the Western Region Sales Office for FMC. According to Hall, on or about October 29, 1993 she received a call from an individual representing him or herself as being

"from AT&T." After Hall requested some literature concerning the Winback program, she received a three-page facsimile consisting of the following: (1) a facsimile cover sheet announcing "The New AT&T 800 Winback & Conserve Program" and further stating, "Please authorize discount acceptance immediately and fax back to 1-800-251-5491 for forwarding to the AT&T Input Department;" (2) a transfer form exhibiting the AT&T initials and the AT&T globe; and (3) a main billed form indicating at the top of the form "Winback & Conserve Program." Upon receiving the forms, Hall forwarded the forms to Kelly for Kelly's review. Based upon Kelly's review of the forms and Hall's description of the telephone conversation, Kelly testified that she believed the documents to represent a new "Winback and Conserve Program" offered by AT&T. Kelly Certif. at ¶ 8-9; Kelly Dep. at 37, 40.

c. Arthur Sanchez

Arthur Sanchez is the President of Golden Contact, Inc. Sanchez testified that on or about October 7, 1993 he received a phone call from a representative of Tariff Consultants. That representative indicated to Sanchez that "We represent AT&T" and specifically answered "no" to the question of whether Tariff Consultants was an aggregator or a consolidator. The caller's supervisor stated that "Tariff Consultants was a marketing arm of AT&T" and that Tariff Consultants was not an aggregator or consolidator. Sanchez thereafter received a four-page facsimile transmission which included the following: (1) a facsimile cover sheet not indicating the source company but stating

"We are bringing you together for less with AT&T network services;" (2) a transfer form displaying the AT&T initials and globe symbol in the corner; (3) an End User Information sheet indicating account numbers and 800 numbers associated with the respective accounts; and (4) an information form setting forth specific details of the program and instructing the end user to complete the accompanying main billed form "provided to us by AT&T." Sanchez testified that the oral misrepresentations and appearances of the facsimile cover sheet and the transfer form led him to believe that he was dealing with AT&T. Sanchez Certif. ¶ 14; Sanchez Dep. at 7, 8, 23, 50, 85, 86.

d. Daniel Flood

Daniel Flood is the Facilities Administrator at Kubota Pacific Computer. Flood stated that on or about October 5, 1993, he received a phone call from a person named Nick whom he believed to be affiliated with AT&T. Nick thanked him for staying with AT&T and said "We appreciate your business." Nick also indicated in some way that he was "calling with the Winback and Conserve Program affiliated with AT&T." Flood Dep. at 20. After the introductory comments, Nick forwarded the following documents to Flood by facsimile transmission: (1) a cover sheet stating "The New AT&T 800 Winback & Conserve Program" and further stating, "Please authorize discount acceptance immediately and fax back to 1-800-251-5491 for forwarding to the AT&T Input Department;" (2) a main billed form; (3) a form entitled AT&T 800 Readyline Summary of Charges ("summary of charges form") displaying the AT&T initials and globe;

and (4) a transfer form also exhibiting the AT&T initial and the AT&T globe. Flood testified that until he had a second conversation with Nick and until he conducted a closer examination of the documents he believed the Winback & Conserve Program was an official AT&T program. Flood specifically identified the oral communications, the cover sheet and the transfer form as the bases for his misconception that he was dealing with AT&T. Flood Certif. at ¶ 7; Flood Dep. at 23-24, 28, 45.

e. Thomas Malanga

Thomas Malanga, the Director of Technical Support and Computer Operating of Sunshine Biscuits, Inc. testified that on October 7, 1993 he received a telephone call from someone claiming to be with AT&T. The caller requested that Malanga forward to him a copy of his AT&T summary of charges. He did so and on the following day Malanga received several documents from the caller consisting of the following: (1) several "End User Information" forms referencing "Winback & Conserve Program"; (2) an information form making several references to "Winback & Conserve Program;" (3) a transfer form displaying the AT&T logo and the globe symbol; and (4) a Winback and Conserve Program letter of guarantee making several references to "Winback & Conserve Program." Malanga testified that because (1) the plan was continually referenced in the documents as Winback & Conserve Program without any indication that Winback was its own corporate entity; (2) the caller reassured him that she was with AT&T; and (3) the transfer form exhibited the AT&T initials and globe, he believed he was

dealing with AT&T. Malanga Certif. at ¶ 7; Malanga Dep. at 39-40.

f. Philio Kenney

Philip Kenney is the First Vice-President and Manager of the Los Angeles Municipal Bond Department for Prudential Securities. Kenney testified that on or about October 6, 1993 he received a telephone call from a person who first asked if he was happy with the 800 service he had been receiving. The caller never identified himself as being from an entity independent of AT&T. The caller then informed Kenney that he could obtain up to 20% off his current 800 service costs. From the tone of the caller's voice, Kenney assumed he was speaking with an AT&T representative. Later that day and subsequent to the telephone conversation, Kenney received a facsimile transmission of the following documents: (1) a cover sheet announcing "The New AT&T 800 Winback & Conserve Program" and further stating, "Please authorize discount acceptance immediately and fax back to 1-800-251-5491 for forwarding to the AT&T Input Department;" (2) a copy of an AT&T summary of charges form; (3) a main billed form referencing "Winback & Conserve Program"; and (4) a transfer form displaying the AT&T initials and globe logo on the top of the letterhead. Kenney testified that because of the many references to AT&T in the documents and because of the context of the phone conversation, he believed he was dealing with AT&T. Kenney Certif. at ¶ 7; Kenney Dep. at 15-16.

g. James Angelici

James Angelici, is the Office Manager and Communications Director for State Construction Company. Angelici testified that on or about October 27, 1993 he received a two page facsimile transmission which included the following documents: (1) a main billed form referencing "Winback & Conserve Program" and (2) an information sheet directed "To All AT&T '800' Customers" and referencing the "Winback & Conserve Program." From all of the references to AT&T in the documents, in addition to the failure to identify Winback & Conserve as its own corporate entity, Angelici believed that he was dealing with AT&T. Angelici Certif. at ¶ 9; Angelici Dep. at 19-20.

h. Kay Mills

Kay Mills is the Accounts Receivable Collection Supervisor for Frigoscandia Food Process Systems, Inc. Mills testified that on or about November 7, 1993 she received a two-page facsimile which consisted of the following documents: (1) an information form directed "To All AT&T '800' Customers" referencing "Winback & Conserve Program" and (2) a main billed form also referencing "Winback & Conserve Program". Mills testified that she believed the source of the information to be AT&T because of the prominent display of the AT&T initials and the wording of the information form. Mills Certif. at ¶ 6.

2. Defendants' Response to Plaintiff's Proofs

It is apparent from the certifications and depositions of plaintiff's witnesses that the alleged misleading acts take the form of either or both oral misrepresentations made during the telephone solicitations and/or written communications in the various forms supplied to the end users by facsimile transmission from the sales representatives. As to the oral misrepresentations there are no proofs in the record nor does plaintiff contend that WCPI or Inga encouraged, consented to, advised, or participated in the making of the alleged oral misrepresentations.

As to the written documents, defendants submitted uncontroverted proofs that AT&T originated the transfer form and the main billed form. Transcript of Proceedings 3/1/94 at 80:13-14; 81:23-25; Inga Certif. 2/15/94 at ¶ 8-9. Apparently, AT&T requires all aggregators to use these forms, will not process a transfer without such forms, and prohibits the aggregators from making any changes to those forms. Many of the end users identified the AT&T initials and globe logo on the transfer form as part of the reason they believed that they were dealing with an official AT&T program or representative. By letter dated October 13, 1993, AT&T directed all aggregators to alter the forms to the extent that the AT&T initials and globe logo should be eliminated. As to the main billed form the primary objection pointed to by the end users and plaintiff was the reference to WCPI merely as the "Winback & Conserve Program" without a clear indication the that WCPI was actually its own corporate entity separate and distinct from AT&T. It is unclear from the record whether

WCPI or the marketing representatives enter the name of the company on the form.

All other documents about which AT&T and AT&T's witnesses complain were generated by the individual marketing agencies to promote and distribute the Winback product. For instance, Salzano testified that the objectionable cover sheet referenced by Flood was created by his company, Agency Services Group, without any knowledge or input from WCPI or Inga. Transcript of Proceedings 3/1/94 at 38-40. Furthermore, Salzano testified that part of his job as a marketing agency is to supply those employed by him and under contract with him the materials necessary to promote the Winback product. *Id.* at 40. Inga testified that the only forms he sees from the sales representatives are the transfer forms and main billed forms as those forms are required to be forwarded to AT&T in order to effectuate the transfer. Transcript of Proceedings 3/2/94 at 87-88. Inga did clarify that occasionally a sales representative will ask for his pre-approval of marketing materials but it does not appear that such interaction occurs as a matter of course. *Id.* at 90-91. In sum, there are no proofs before the Court that Inga and/or WCPI generate, consent to, or approve any of the objectionable written marketing materials created and utilized by the marketing representatives in the promotion and sale of the Winback product.

II. AT&T'S THEORY OF THE CASE

Having detailed the proofs before the Court, it is important at this juncture to clearly set forth AT&T's proffered theory of liability. Perhaps recognizing that the

record is devoid of any proofs of direct involvement by Inga and/or WCPI in the infringing acts, AT&T contends that WCPI and Inga should be held vicariously liable for the misrepresentations of the sales representatives who market and sell the Winback program. Simply stated, AT&T argues that WCPI and Inga authorize the sales representatives to market the Winback program on behalf of and to the direct financial benefit of WCPI and Inga. Accordingly, AT&T urges that with the acceptance of the financial benefits realized from the acts of the sales representatives comes the burden of sharing the responsibility for misrepresentations made by the representatives in carrying out the solicitation activities on behalf of WCPI and Inga. AT&T stresses that this is not a contributory infringement case in which AT&T is alleging that WCPI and Inga have in some way induced the infringement. Letter from Frederick L. Whitmer, Attorney for Plaintiff, to the Court of 3/21/94 at 16 [hereinafter "Whitmer Letter"]; Transcript of Proceedings 3/11/94 at 28:16-25.

III. CONCLUSIONS OF LAW

The standards for issuance of a preliminary injunction are well-settled. The moving party must demonstrate (1) a reasonable probability of eventual success in the litigation; (2) that the movant will be irreparably injured *pendente lite* if relief is not granted; and, where relevant, it must be shown that (3) there is a possibility of harm to other interested persons from the denial of the injunction, and (4) the public interest requires the granting of preliminary injunctive relief. *Eli Lilly & Co. v. Premo Pharmaceutical Labs, Inc.*, 630 F.2d 120, 136 (3d Cir. 1980); *SK&F, Co. v. Premo Pharmaceutical Labs, Inc.*, 625 F.2d 1055, 1066-68 (3d

Cir. 1980); *Fotomat Corp. v. Photo Drive-Thru, Inc.*, 425 F. Supp. 693, 701 (D.N.J. 1977)).

A. Reasonable Probability of Success on the Merits

Section 43(a) of the Lanham Act condemns a false or misleading description of goods or services. *U.S. Healthcare v. Blue Cross of Greater Philadelohia*, 898 F.2d 914 (3d Cir.), *cert. denied*, 498 U.S. 816 (1990). Section 43(a) provides, in pertinent part, that:

> [a]ny person who, on or in connection with any goods or services . . . uses in commerce any word, term, name, symbol or device . . . or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact which . . . is likely to deceive as to the affiliation, connection or association of such person with another person, or as to origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person . . . shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a). The elements of the tort of unprivileged imitation under Section 43(a)[2] are "(1) that the imitated feature is non-functional, (2) that the imitated feature has acquired a 'secondary meaning', and (3) that consumers are likely to confuse the source of the

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[2] The federal law of unprivileged competition under Section 43(a) is equivalent to the New Jersey law of unprivileged competition. *American Home Products v. Barr Laboratories*, 656 F. Supp. 1058, 1061 (D.N.J. 1987).

plaintiff's product with that of the defendant's product." *American Home Products v. Barr Laboratories,* 834 F.2d 368, 370 (3d Cir. 1987).

1. Common Law Agency Analysis

Section 43(a) prohibits "[a]ny person" from engaging in certain delineated misleading acts. Given AT&T's theory of vicarious liability, this Court must determine if WCPI and/or Inga, the named defendants qualify as "[a]ny person" within the meaning of the Lanham Act. The first step in the analysis is the recognition that trademark infringement is a species of tort. *Hard Rock Cafe Licensing v. Concession Services,* 955 F.2d 1143, 1148 (7th Cir. 1992). As such, to determine the boundaries of liability it is appropriate to turn to the common law. *Id.*

In the instant matter AT&T contends that under well-established principles of the common law of agency WCPI and Inga, the principals, can be held liable for the acts of the sales representatives, the agents, acting within the scope of their actual, implied or apparent authority. WCPI and Inga do not dispute the applicability of the common law of agency. They contend, however, that the sales representatives are independent contractors over whom Inga and WCPI have no control. WCPI and Inga argue that under the common law of agency it is well-settled that a principal may not be held liable for the acts of his independent contractors except in certain limited situations such as where the independent contractor is engaged to perform some ultrahazardous activity. Because the instant case does not present one of these

limited situations, WCPI and Inga maintain that AT&T's application must fail.

The New Jersey Supreme Court has recently discussed in detail the distinctions between agents and independent contractors. *See Sears Mortg. Corp. v. Rose,* 134 N.J. 326 (1993); *Baldasarre v. Butler,* 132 N.J. 278 (1993). An agency relationship is established "when one party consents to have another act on its behalf, with the principal controlling and directing the acts of the agent." *Sears Mortg. Corp.,* 134 N.J. at 337 (citing *Arcell v. Ashland Chemical Co.,* 152 N.J. Super. 471, 494-95 (Law Div. 1977); 2A *C.J.S. Agency* § 37 (1972); *Restatement (Second) of Agency* § 1 (1958)). The determination will rest on a factual analysis of the conduct of the parties regardless of the terms the parties ascribe to the relationship. *Id.* It has been recognized that direct control is not necessary to establish an agency relationship, but that a court must look to the totality of the circumstances. *Id.* at 338.

In *Baldasarre v. Butler,* 132 N.J. 278 (1993), one of the issues faced by the court was whether a client could be held vicariously liable for the tortious acts of his attorney. *Id.* at 291-92. The Baldasarre Court recognized that " 'there is a vast difference between an employee agent and a non-employee agent. . . . [T]he non-employee agent is generally, nothing else but an independent contractor.' " *Id.* at 219 (quoting *JMB Enter. v. Atlantic Employers Ins.,* 228 N.J. Super. 610, 617 (App. Div. 1988)). "The status of independent contractor is 'characterized by the attributes of self-employment and self-determination in the economic and professional sense.' " *Id.* (quoting *Rokos v. State, Dep't of Treasury,* 236 N.J. Super. 174,

181 (App. Div. 1989)). After examining the relationship between the parties, the court determined that the attorney was merely an independent contractor. Accordingly, where there was no proof that the client directed, advised, consented to or participated in the attorney's wrongful conduct, the court declined to find the client vicariously liable for the acts of the attorney on an agency theory.

This Court, too, must look to the relationship between WCPI and Inga and the sales representatives who market the Winback program to determine the appropriate status of their relationship. In this regard, Inga testified that he does not employ any individuals within WCPI who perform any marketing or sales function. The uncontroverted testimony of Inga indicates that the only persons who market the Winback program are persons associated with the various marketing agencies. Additionally, defendants have submitted certifications from the officers of the various marketing agencies implicated by plaintiff's proofs. In each certification the officer described his company as a company that markets long distance telephone services that are offered by various companies, including in some instances its own competing aggregation plan. Each officer stated that neither its company nor its employees receive salaries from WCPI but are paid on a strict commission basis for the sales that are made. Furthermore, each officer indicated that neither the company nor its employees operate out of WCPI's offices nor are they supplied facilities, equipment, or reimbursement for operating expenses by WCPI. *See* Certifications of Joseph Kearney, General Manager of Tariff Advisory Group; James Maguire, President of Tariff Consultants, Inc.; Thomas Salzano, President of Agency

Services Group, Inc.; Jeffrey Pink, President of Telnet Systems, Inc.

It appears that WCPI's interaction with the sales representatives is somewhat limited. Other than the forms required by AT&T to process the orders (the transfer form and main billed form) WCPI does not supply any marketing materials, forms or supplies to the marketing companies. The sales representative forwards the AT&T transfer form and main billed form along with his or her own facsimile or information sheets to the prospective end user. When the end user commits to the transfer to the Winback program via the completing of the transfer and main billed forms, the sales representative then forwards those forms to the primary marketing agency which in turn forwards the forms back to WCPI. The sales representative is supposed to place an identification number referencing the primary marketing agency with whom he or she is associated on the forms so that his or her identity can be traced for purposes of routing commission payments and directing questions where appropriate. WCPI then forwards the forms to AT&T thereby effectuating the transfer to the WCPI program. Other than the above-described activities, it was established that Inga and at least one sales representative, Thomas Salzano, engage in periodic discussions concerning the promotion of the Winback product. Additionally, Inga claims to attempt to "police" the sales representatives in the promotion of the product. Finally, the sales representatives play an integral role in the success of WCPI, financially and otherwise, in that all sales are conducted through these agencies and individuals.

Based upon the proofs as detailed above, this Court finds that the sales representatives engaged by WCPI and Inga are independent contractors. In turn, the representatives are primarily employees of or under contract with independent telecommunications agencies that market on behalf of other companies as well as on behalf of WCPI and on behalf of themselves. Recognizing the distinctions between employees or agents and non-employees or independent contractors, the Court is persuaded that under the totality of the circumstances, these sales representatives are independent contractors over whom WCPI and Inga exercise insufficient control to amount to an agency relationship.

Baldasarre, supra, is instructive on this point. In *Baldasarre,* just as the attorney was not subject to the direction and control of his client in performing the day-to-day aspects of the job for which he was hired, so too are the sales representatives not subject to the direction and control of Inga and WCPI in the everyday aspects of conducting the business of promoting and selling the Winback product. That is not to say that the client in the *Baldasarre* case had no involvement whatsoever in the attorney's performance of his job or that WCPI and Inga have no involvement in the business of promoting and selling the Winback product. An examination of the *Baldasarre* opinion reveals multiple contacts between the attorney and the client with the client dictating to the attorney the terms that would be acceptable for the consummation of the deal that was at issue in the case. Surely, any attorney-client relationship embodies some level of joint activity in the course of the representation. Yet, despite the existence of such joint activity, the *Baldasarre* court

declined to extend liability to the client on an agency theory where the client did not advise, consent, direct or participate in the misconduct. In the instant case, the level of joint activity between WCPI and Inga and the sales representatives is similarly minimal and peripheral to the nuts and bolts of the business of marketing and promoting. Furthermore, as detailed above, no proof was submitted to the Court to establish that WCPI or Inga advised, consented to or participated in the alleged misrepresentations. Accordingly, plaintiff has failed to establish sufficient proof that the sales representatives are any more than independent contractors.

2. Analogous Cases[3]

Plaintiff contends that the consequences of finding that WCPI and Inga cannot be held vicariously liable for the acts of the sales representatives "would 'be most iniquitous and most dangerous, and give shelter and

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[3] At the hearing on plaintiff's application, plaintiff cited the unpublished opinion of the Honorable Harold A. Ackerman on AT&T's application for a preliminary injunction in the matter of *AT&T v. Telcom United North, Inc. and F.E. United, Inc.*, Civil Action No. 93-1135. Telcom is a reseller of AT&T services. In *Telcom*, AT&T similarly charged that Telcom sales representatives were engaging in misleading practices in the solicitation of Telcom's competing long distance plan. Telcom contended, in part, that the sales representatives were independent contractors over whom Telcom had no control and thus, Telcom could not be held liable for their acts. Judge Ackerman rejected Telcom's argument. Because the factual record on this issue appears to be more fully developed in the instant matter, this Court respectively declines to follow Judge Ackerman's decision in *Telcom*.

encouragement to all kinds of fraud . . . ' " Whitmer Letter, at 19 (quoting *First Alabama Bank v. First State Ins. Co.*, 899 F.2d 1045, 1061 n.8 (11th Cir. 1990)). The Court's conclusion, however, is not contrary to results reached by other courts considering the issue in analogous situations. Specifically, treatment of trademark infringement cases in the area of licensors who grant licensees the right to market the licensor's product serves as a persuasive analogy to the situation presently before the Court.[4]

For instance, in *Oberlin v. Marlin American Corp.*, 596 F.2d 1322 (7th Cir. 1979), Melabs of California, the manufacturer of a portable electronic telephone, entered into a contract with Marlin American Corporation whereby Marlin undertook to be the distributor of Melabs' telephone product. The agreement between the parties gave Marlin the exclusive right to market the phone. Melabs

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[4] The law is clear that a franchisor is under no duty to "diligently prevent the independent acts of trademark infringement that may be committed by a single franchisee." *Mini Maid Services v. Maid Brigade Systems*, 967 F.2d 1516, 1519 (11th Cir. 1992). The licensor's duty of supervision flows only to the supervision of the "licensee's *use of the licensor's own trademark.*" *Id.* (emphasis supplied) (citations omitted). This rule derives from "the Lanham Act's abandonment provisions, which specify that a registrant's mark may be canceled if the registrant fails to control its licensees' use of the licensed mark". *Id.* (citing 15 U.S.C. § 1064(5)(A)). The purpose of the rule is thus to "protect the public from being misled about the quality or consistency of the products offered under the licensor's trademark." *Id.* Although the instant case is concededly not a case involving a licensor/licensee relationship, for the reasons discussed *infra*, the Court is persuaded that the sales representatives are more factually analogous to licensors than to the agents which are found in the cases relied upon by plaintiff.

obligated itself to issue a standard warranty, to provide service contractors and replacement parts. *Id.* at 1324. Marlin obligated itself to develop and be responsible for the brochures, sales aids, advertising, etc. *Id.* As part of the marketing effort, Marlin established and advertised a nationwide franchising plan. *Id.* at 1325. The plaintiff, William Oberlin, relying upon the marketing information from Marlin entered into a franchise agreement with Marlin to market and sell the telephone. *Id.* Subsequently, Oberlin learned that the telephone company had no telephone numbers available for the telephones, thus making it virtually impossible to market the phones. *Id.* Accordingly, Oberlin instituted suit against Marlin, Melabs, and SCM Corporation, an entity which purchased the assets of Melabs. Oberlin sought to hold Melabs and SCM liable for the allegedly fraudulent acts of Marlin on an alleged principal-agent relationship basis. *Id.*

Recognizing that Melabs' and SCM's liability under the agency theory turned on the relationship between the parties, the court examined factors such as the extent of control exercised and the intent and functioning of the parties in their relationships with each other. *Id.* at 1326. The court found that the marketing agreement gave Melabs the right to approve all contract forms and determined that uniform terms, conditions and prices would be offered to ultimate distributors. Furthermore, the marketing agreement also transferred to Melabs the ownership of the distributorships established by Marlin in the event of Marlin's default or bankruptcy. Finally, there was evidence in the record that Melabs exercised approval rights over the use of SCM trademark in advertising materials. *Id.* After examining all of these factors, the

court held that neither the contract nor the advertising practice demonstrated the "elements of constancy or detail characteristic of the control a principal exercises over his agent." *Id.* and cases cited therein.

The plaintiff in *Oberlin* also contended that because SCM/Melabs allowed Marlin to use the SCM trademark in its advertising, the federal trademark law created a duty in SCM to supervise Marlin in its use of the trademark. In response to this argument the *Oberlin* court stated:

> The purpose of the Lanham Act . . . is to ensure the integrity of registered trademarks, not to create a federal law of agency. Furthermore, the scope of the duty of supervision associated with a registered trademark is commensurate with this narrow purpose. The duty does not give a licensor control over the day-to-day operations of a licensee beyond that necessary to ensure uniform quality of the product or service in question. It does not automatically saddle the licensor with the responsibilities under state law of a principal for his agent.

Id. at 327; *see also Mini Maid*, 967 F.2d at 1520 (quoting from *Oberlin* with approval in case where issue involved liability of franchisor for trademark infringement by franchisee).

Although the Lanham Act itself does not give rise to liability under a federal law of agency, *Oberlin*, 596 F.2d at 1327, the Court can conceive of situations where a principal should quite properly be held liable for the infringing acts of its agents under a common law agency theory. *See Hard Rock Cafe*, 955 F.2d at 1150 (recognizing the existence

of vicarious liability under the Lanham act, but ultimately finding that under facts of that case the requirements for vicarious liability were not satisfied). This case, however, does not present one of those situations.

Like Melabs in the *Oberlin* case, WCPI provides separate and distinct marketing or sales agencies the right to market the Winback product.[5] The parties enter into a written contract governing the relationship between them. The product, of course, is not a physical object like a telephone, rather it is the access to the AT&T 800

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[5] In *Oberlin*, the court rejected plaintiff's agency by estoppel argument in part because the advertisements for the product expressly described Melabs as the producer and Marlin as the distributor of the telephone. *Oberlin*, 596 F.2d at 1327 n. 5. The proofs before the Court are extremely unclear as to whether or not the sales representatives hold themselves out to be WCPI in making the solicitations or whether or not WCPI knowingly permits its name to be used in the course of solicitations without qualification from the representatives that they are from independent marketing agencies engaged to sell and promote the Winback program on behalf of WCPI. For instance, Arthur Sanchez testified that the caller claimed to be from Tariff Consultants and to be offering the Winback & Conserve Program. Sanchez Certif. at ¶ 5. Flood testified, however, that the caller said something to the effect that he was affiliated with Winback & Conserve. Flood Dep. at 20:18-19.

The sparsity of proofs on this issue is probably a result of the basis of plaintiff's claim, namely that the representatives do not properly identify themselves at all, rather they hold themselves out as representing or being from AT&T. In any event, the Court declines to make any ruling based upon an agency by estoppel theory in that the specific issue was not argued to the Court and because the Court does not have sufficient proofs before it on the record at this time regarding the nature of a routine "proper" solicitation for the Winback program.

inbound network. Like Melabs, WCPI vests the marketing responsibility of the product in an entity or entities independent of WCPI, namely the various marketing agencies referenced in the proofs before the Court. Also, like Melabs, WCPI has no involvement in the day-to-day operations of the marketing companies. Accordingly, the proofs before the Court do not "demonstrate the elements of constancy or detail characteristic of the control a principal exercises over his agent." *See Oberlin*, 596 F.2d at 1326.

Plaintiff directs the Court's attention to various cases which stand for the proposition that principals can be held liable for the acts of their agents acting within the scope of their authority. *See American Society of Mechanical Engineers, Inc. v. Hydrolevel Corp.*, 456 U.S. 556 (1982)[6]

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[6] In *Hydrolevel*, a manufacturer of fuel cutoffs for boilers brought an action against the American Society of Mechanical Engineers for anti-trust violations. The Society, a non-profit organization, promulgated advisory safety codes for the industry, many of which had been incorporated into the federal regulations. Hydrolevel competed with a company called McDonald and Miller, Inc. ("M&M") in the marketing of a certain low-level fuel cutoff device in water boilers. An M&M Vice-President also served as a Vice-Chairman of the Society's subcommittee that drafted the code dealing with the safety devices in question. Additionally, the Chairman of the subcommittee at the time was an Executive Vice-President of Hartford Steam Boiler Inspection and Insurance Company. A controlling interest in Hartford was owned by International Telephone and Telegraph Corporation, which acquired M&M within the year. The subject of the lawsuit involved a letter drafted by the Society claiming that a device such as the Hydrolevel device was unsafe. M&M seized upon the letter to discourage customers from buying Hydrolevel's product. The proofs established that there was no basis for such

(non-profit professional society held vicariously liable for the acts of its subcommittee's Chairman and Vice-Chairman in violating the Sherman Act); *First Alabama Bank v. First State Ins. Co.*, 899 F.2d 1045 (11th Cir. 1990) (recognizing rule that constructive knowledge is imputed to principal to avoid the injustice of the principal being shielded from liability which would ensue from such knowledge or notice, but finding knowledge of bank's insurance agent could not be imputed to bank under the facts of the case); *First National Bank of Cicero v. Lewco Securities Corp.*, 860 F.2d 1407 (7th Cir. 1988)[7] (recognizing

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an opinion and that the M&M and Hartford Vice-Presidents played instrumental roles in the drafting of the letter in their respective positions as Vice-Chairman and Chairman of the subcommittee. Grounding its holding in the doctrine of apparent authority, the Supreme Court found the Society liable for the anti-competitive acts of it agents.

[7] In *Cicero*, a bank commenced an action to recover certain bond and stock certificates that it accepted as collateral for loans. The bank later discovered that the certificates were stolen from the various defendants and the certificates were subsequently confiscated by the FBI. The bank claimed that it was the bona fide purchaser ("BFP") of the certificates and thus had superior rights to the certificates. As a requirement to BFP status, the bank was required to establish that it was without notice of any adverse claims at the time of acceptance of the certificates. William Giova, a Senior Vice-President of the bank and Senior Loan Officer, represented the bank in connection with the loans secured by the certificates. Apparently, a proper inquiry by Giova into the Securities and Exchange Commission's computer data base, the Securities Information Center ("SIC"), would have revealed that a portion of the certificates had been stolen. Giova subsequently pleaded guilty to two counts of a multi-count indictment charging him with, *inter alia*, conspiracy to knowingly transport stolen securities in interstate commerce.

that "where a principal cannot embrace a transaction except through the acts of an unsupervised agent, the principal must accept the consequences of the agents's [sic] misconduct because it was the principal who allowed the agent to operate without accountability"). The Court does not take issue with plaintiff's statement of the law of agency. The cases upon which plaintiff relies, however, do not involve the threshold issue before this Court, namely whether or not an agency relationship is in existence.

For instance, in *Hydrolevel, supra,* the status of the Chairman and Vice-Chairman of the subcommittee as agents was not disputed. The relevant issue in *Hydrolevel* was whether the Society's "liability under a theory of apparent authority was consistent with the intent behind the anti-trust laws." *Hydrolevel,* 456 U.S at 570. In *Cicero, supra,* there was no issue of whether the Senior Vice-President and Loan Officer of the bank was an agent of the bank. The question in *Cicero* was first whether the "adverse agent" exception[8] operated to preclude the imputation of the agent's lack of good faith to the bank. *Cicero,* 860 F.2d at 1417. Assuming the adverse agent exception applied, the second question was whether the "sole actor" exception to the exception[9] applied

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[8] The adverse agent exception is invoked where the agent's interests are shown to be adverse to the principal. *Cicero,* 860 F.2d at 1407. "It is then presumed that such an agent is unlikely to fulfill his fiduciary duty of full disclosure to the principal." *Id.*

[9] The sole actor exception to the exception provides that "where an adverse agent is also the *sole* representative of the principal in the transaction in question, the principal may once

nevertheless requiring the imputation of the agent's lack of good faith to the bank. *Id.* at 1417-18. Thus, plaintiff's cases are factually distinguishable and generally inapplicable to the core issue before the Court of whether or not an agency relationship exists between WCPI and the sales representatives.

In addition to the above-cited cases, AT&T points to cases involving copyright infringement for the proposition that a principal can be held liable for the acts of his agents which infringe another's intellectual property rights. *See* Whitmer Letter at 13-15 (citing *Gershwin Publishing Corp. v. Columbia Artist Mgt., Inc.*, 443 F.2d 1159 (2d Cir. 1971) and *F.E.L. Publications LTD v. National Conference of Catholic Bishops*, 466 F. Supp. 1034 (N.D. Ill. 1978) [hereinafter "*NCCB*"]). First, the Court notes that vicarious liability for trademark infringement, has been recognized as more narrowly drawn than that for copyright infringement. *See Hard Rock Cafe*, 955 F.2d at 1150 (citing *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S 417, 439 n. 19 (1984) for the proposition that "secondary liability for trademark infringement should . . . be more narrowly drawn than secondary liability for copyright infringement"). The United States Supreme Court has recognized that " 'trademark right 'has little or no analogy' to copyright or patent." *Sony*, 464 U.S. at 439 n. 19. Accordingly, the Court declines to place any reliance on plaintiff's copyright cases.

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again be charged with the agent's knowledge." *Cicero*, 820 F.2d at 1407.

In any event, the holding's in plaintiff's cases are not inapposite. In *Gershwin*, an examination of the relationship between the "vicarious/contributory" infringer and the "primary" infringer reveals a close working relationship between the parties where the vicarious infringer had "pervasive participation in the formation and direction" of the primary infringer's operation. *Gershwin*, 443 F.2d at 1163. In fact, the court found that the vicarious infringer had knowledge of the infringing acts, *id.* at 1162-63, and as it believed it had no responsibility for any infringement that might occur, it took no steps obtain the proper copyright clearance. *Id.* at 1161. WCPI's involvement with the sales representatives does not even begin to approach the degree of pervasiveness as that of the vicarious infringer in *Gershwin*.

In *NCCB*, the court found that plaintiff had failed to produce sufficient proofs of direct involvement on the part of the dioceses in the alleged infringing acts of the individual church parishes. In distinguishing the *Gershwin* case, the *NCCB* court recognized that in *Gershwin*, plaintiffs were able to show that the "vicarious" infringer was "involved in every aspect of the planning and production of the infringing performances." *NCCB*, 466 F. Supp. at 1042. In this Court's view, Inga and WCPI's relationship with it sales representatives is more akin to the relationship between the parties in *NCCB* than in *Gershwin*. Although the *NCCB* court also relied upon the fact that *NCCB* received no financial benefit from the infringing acts, this Court is not persuaded that WCPI's direct financial benefit from the acts of the sales representatives requires a different outcome in this case. The fact remains that WCPI, like *NCCB*, is not so directly

involved, and practicably cannot be so directly involved, with the operations of the primary infringers so as to warrant the imposition of vicarious liability on WCPI and Inga.

Accordingly, for all of the reasons discussed above, the Court finds that the sales representatives are independent contractors whose misconduct cannot be imputed to WCPI and Inga.

3. Likelihood of Confusion

The Court need not rest solely on its determination that the sales representatives are independent contractors in denying plaintiff's application. To succeed on its trademark infringement claim, one of the elements that plaintiff must establish is that as a result of the infringing acts, consumers are likely to confuse the source of plaintiff's product with that of defendants' product. There is no question that plaintiff submitted sufficient proofs to the Court to establish that consumers have been confused by certain oral misrepresentations made by and written documents provided by the Winback sales representatives. However, the proofs also establish that the cause of such confusion is not solely attributable to the sales representatives.

For instance, the nature of the product itself gives rise to some degree of the confusion. This is not a case where the product is a so-called "knock-off", such as imitation Hard Rock Cafe T-Shirts. WCPI's product is the access to the real thing, the actual AT&T network. Inga's uncontroverted testimony established that not only is

access to the network provided, but that in many cases, via the execution of a letter of agency, the end user finds him or herself with virtually the same telephone product and services from AT&T as he or she would have as a direct customer of AT&T. Thus, confusion is a natural incident of the product itself.

In addition, the record suggests that certain actions attributable to AT&T and those who acted on behalf of AT&T also played some role in the creation of the confusion. At the hearing on plaintiff's application for both the TRO and the preliminary injunction much was made about the confusion resulting from the name Winback and Conserve Program, Inc. However, the uncontroverted testimony of Inga established that prior to establishing and incorporating WCPI he received authorization from his AT&T account representative, Joseph Fitzpatrick to use the name Winback & Conserve Program, Inc.[10] *See*

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[10] Concededly, much of AT&T's concern is that many of the Winback marketing representatives use the name without the "Inc." appellation. In fact, one of the restraints set in place by this Court's TRO was that all marketing materials designate WCPI as Winback & Conserve Program, Inc. The purpose of this order was to ensure that WCPI was clearly identified as its own corporate entity without any affiliation to AT&T. Even with the use of the "Inc.", however, it is conceivable, and in this Court's view quite possible, that the name would still give rise to confusion in the mind of the consuming public as to whether or not the program was affiliated with AT&T. Furthermore, it is surely foreseeable that WCPI would be referred to casually without the "Inc." as it is common practice in everyday discussions to refer to companies and entities without including any appellation such as Inc., Co., P.A. etc. In fact, AT&T itself referred to WCPI as "Winback & Conserve Program" in a monthly paycheck/credit statement sent to WCPI as recently as February of 1994.

Inga Certif. 12/15/93 at ¶ 4; Transcript of Proceeding 3/2/94 at 6:6-9:17.

Furthermore, the evidence established that the transfer form and main billed form are provided by AT&T to all aggregators. Transcript of Proceedings 3/1/94 at 80:13-14; 81:23-25; Inga Certif. 12/15/93 at ¶¶ 8, 16 & Exhibit A; Inga Certif. 2/15/94 at ¶ 8-9. Apparently, without the completion of such forms AT&T will not process the transfers. The transfer form, as it was originally provided to the aggregators, including WCPI, contained at the top of the page the AT&T initials and the AT&T globe symbol. Inga testified that it was only by letter dated October 13, 1993 that AT&T instructed all of its aggregators to stop using the transfer form with the AT&T logos and to replace it with the transfer form without the logos. Although the proofs also established that the forms were used by some representatives subsequent to that instruction, the fact remains that AT&T first put the document in use in its objectionable form. Significantly, many of the end users who claimed that they believed they were dealing with AT&T cited to the transfer form with the AT&T logos as one of the bases for their beliefs.

The Court does not intend to suggest, however, that either the nature of the product or the arguably unwise decisions of the AT&T marketing department would justify acts of infringement by WCPI or those who market

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Transcript of Proceedings 3/2/94 at 10:4-13; Defendants, Ex. 3, admitted in evidence at the hearing on plaintiff's preliminary injunction application.

the WCPI product. Indeed, the Court makes no determination as to the primary cause of the actual confusion which was proven to exist. The Court only raises these issues to support its conclusion that the issuance of a preliminary injunction in this matter, which would require a finding of likelihood of confusion, would be improper given that certain decisions by the plaintiff played at least some substantive role in the creation of the confusion. *Cf. Holiday Inns, Inc. v. Trump*, 617 F. Supp. 1443, 1475 (D.N.J. 1985).

B. Other Equitable Considerations

It has been said that "[t]here is no power the exercise of which is more delicate, which requires greater caution, deliberation, and sound discretion, or more dangerous in a doubtful case than the issuing [of] an injunction." *Falter v. Veterans' Administration*, 632 F. Supp. 196, 201 (D.N.J. 1986) (quotations omitted). The power to issue an injunction is "the strong arm of equity." *Id.* This being the case it is essential that the equitable factors which influenced the Court's decision be addressed.

The Court finds significant the uncontroverted testimony and documentary proof that in the instances where plaintiff brought objectionable acts of the sales representatives to the attention of Inga, Inga took appropriate steps to reprimand and discipline the sales representative.[11] *See, e.g.*, Inga Certif. 12/15/93 at ¶ 10; Inga Certif.

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[11] Plaintiff argues that the fact that Inga takes such steps, and believes that it is his responsibility to take such steps, is evidence of a principal/agent relationship. In this Court's view,

2/15/94 at ¶¶ 5, 9, 10, 11, 13; Transcript of Proceedings 3/1/94 at 29-34, 79-80 & Defendants' Exhibit 1 admitted into evidence at the hearing; Certification of Joseph Feroli at ¶¶ 8-9 (recognizing his error and acknowledging that his superior admonished his use of a certain document).

Furthermore, unlike the *Hydrolevel* case, relied upon by plaintiff, where the Court determined that the Society was in the best position to prevent acts of anti-competitive behavior among its committee members, *see Hydrolevel*, 456 U.S. at 572, the testimony in this case established that the WCPI product was marketed through a sprawling web of sales representatives either employed by or under contract with the individual sales/marketing agencies. Inga testified that "[d]ue to the fact that it takes several months to a year or two to get your residuals up to a point where you can make a living," it is not economically practicable to have salaried sales persons on staff. *See* Transcript of Proceedings 3/1/94 at 63. Thus, in order

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however, such actions do not create an agency relationship, but merely operate as a defense to liability for contributory infringement. Liability for contributory infringement arises when "a manufacturer or distributor intentionally induces another to infringe a trademark, or it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 854 (1982). Thus, if Inga did not take such steps and continued to supply his product to the marketing agencies for distribution, plaintiff undoubtedly would be arguing that Inga and WCPI were contributory infringers. Inga and WCPI, having taken prudent steps to arguably avoid liability as contributory infringers, plaintiff may not now come before the Court and argue that such actions form the basis on which Inga and WCPI can be held vicariously liable for the acts of the sales representatives.

to remain competitive, Inga utilizes independent agencies to perform the marketing aspect of the business. Inga and Salzano, the President of one such marketing agency, testified that most aggregators market through these agencies and that the agencies market on behalf of many aggregators.

Given this structure with multiple levels of sales representatives over whom Inga has no control, making voluminous numbers of solicitations on a daily basis, it is hard to imagine what more AT&T would have Inga do to prevent these independent agencies from engaging in objectionable marketing tactics in the first instance. In this regard, the Court reiterates and stresses that there has been insufficient proof placed before it at this time to support a claim that Inga induced the acts of infringement, was wilfully blind to the acts of infringement, or was negligent in not preventing the acts of infringement. In fact, the uncontroverted proofs offered by defendants indicate that Inga took steps to direct the sales agencies not to misrepresent the origin of the product. Furthermore, defendants established that in instances where Inga was informed of objectionable representation, Inga dealt swiftly and appropriately with the sales representatives engaging in the such acts. Without sufficient evidence to establish that Inga was aware of, encouraged, ratified or participated in the acts of infringement, it would be difficult for this Court to justify the imposition of preliminary restraints against Inga and WCPI.

Finally, the Court notes that AT&T is not left without an effective avenue of relief. AT&T remains free to pursue preliminary injunctive relief against the sales/marketing agencies which develop the marketing material and

employ or contract the representatives that are engaging in the allegedly misleading practices.

IV. CONCLUSION

The Court has concluded that at this stage in the litigation plaintiff has not established a likelihood of success on the merits. Thus, it is not necessary to consider whether plaintiff has satisfied its burden of proving irreparable harm, nor is it necessary to address the additional elements of public interest and the possibility of harm to others.

Accordingly, for all of the foregoing reasons, plaintiff's application is **DENIED**. The Court expresses no opinion at this time as to the ultimate success of plaintiff's cause of action at trial. The parties should not rely upon comments expressed in this opinion to preclude the Court from revisiting any issues which may arise at the time of final hearing when the Court will have the advantage of reviewing a more fully developed testimonial and documentary record.

An appropriate Order will issue.

/s/ Nicholas H. Politan
NICHOLAS H. POLITAN
U.S.D.J.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

AMERICAN TELEPHONE AND TELEGRAPH COMPANY,

Plaintiff,

v.

WINBACK & CONSERVE PROGRAM, INC., et al,

Defendants.

CIVIL ACTION NO. 93-5456

HON. NICHOLAS H. POLITAN

ORDER

(Filed May 1, 1994)

This matter having come before the Court on plaintiff's application for a preliminary injunction, and the Court having reviewed the submissions of the parties, and having conducted a hearing thereon, and for the reasons more fully explained in the accompanying Letter Opinion dated May 12, 1994, and for good cause shown, **IT IS** on this ___ day of May, 1994

ORDERED that plaintiff's application for a preliminary injunction be and hereby is **DENIED**.

/s/ Nicholas H. Politan
NICHOLAS H. POLITAN
U.S.D.J.

Filed December 9, 1994

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 94-5305

AMERICAN TELEPHONE AND
TELEGRAPH COMPANY

v.

WINBACK AND CONSERVE PROGRAM, INC.,
a New Jersey corporation;
ALFONSE G. INGA, an individual

American Telephone and Telegraph Company ("AT&T")
Appellant

On Appeal from the United States District Court
for the District of New Jersey
(D.C. Civ. No. 93-5456)

Argued November 1, 1994

BEFORE: GREENBERG and McKEE, *Circuit Judges*, and POLLAK, *District Judge**

(Filed: December 9, 1994)

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* The Honorable Louis H. Pollak, United States District Judge for the Eastern District of Pennsylvania, sitting by designation.

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OPINION OF THE COURT

GREENBERG, *Circuit Judge.*

In this case, the American Telephone and Telegraph Company ("AT&T") seeks to hold the defendants-appellees – Winback and Conserve Program, Inc. ("Winback")

and Alphonse G. Inga – liable for acts of unfair competition by the defendants' sales representatives. The district court, in an Opinion and Order dated May 12, 1994, denied AT&T's application for a preliminary injunction, finding that Winback and Inga exerted insufficient control over the sales representatives to justify the imposition of liability upon Winback and Inga. *AT&T v. Winback & Conserve Program*, 851 F. Supp. 617 (D.N.J. 1994) ("*Winback*"). Because we find that the district court committed errors of law in denying AT&T's motion for a preliminary injunction against Winback and Inga, we will vacate the Order of the district court and we will remand the matter for further proceedings.

I. Introduction and Factual Background[1]

AT&T is a long-distance telecommunications carrier that, as part of its marketing strategy, uses a variety of service marks and trademarks, including the initials "AT&T" and the AT&T "globe" symbol. AT&T markets and sells telecommunications services to customers, and its rates and practices are governed by tariffs it files with the Federal Communications Commission. Not only does AT&T provide services to "end-users" – customers who purchase service for themselves – but, pursuant to a 1976 FCC ruling, AT&T offers long distance telecommunications services it provides under a tariff for resale. *See In the Matter of Regulatory Policies Concerning Resale and*

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[1] Unless otherwise noted, the facts set forth in the text are taken from the district court's Opinion in this case, reported at 851 F. Supp. 617 (D.N.J. 1994).

Shared Use of Common Carrier Services and Facilities, 60 F.C.C.2d 261 (1976); *In the Matter of Regulatory Policies Concerning Resale and Shared Use of Common Carrier Domestic Public Switched Network Services*, 83 F.C.C.2d 167 (1980); *Winback*, 851 F. Supp. at 618. The resale market works as follows: Resellers, or aggregators, subscribe to AT&T programs which provide large discounts for high volume purchases of AT&T telecommunications services. The resellers then sell the services to individual businesses that do not generate sufficient volume to qualify individually for the high-volume discounts. Thus, by providing the services to these end-users, resellers make a profit while end-users receive access to the AT&T network at a significantly lower cost than if they purchased services from AT&T directly. Under some programs – including the one at issue on this appeal – AT&T bills the end-users directly and they make payments directly to AT&T. Also, pursuant to some resale agreements, the end-users receive the services associated with access to the AT&T network directly from AT&T.[2] Nonetheless, in the resale business, only the reseller is a customer of AT&T; the end-users are customers of the reseller and not of AT&T.

Appellee Winback is a reseller of 800 inbound telecommunications services and appellee Inga is its president. As a matter of convenience, hereafter we usually will refer to both simply as Winback. Winback offers end-users access to the AT&T 800 inbound network at a discount price. As are other resellers, Winback is both a customer and a competitor of AT&T.

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[2] This is accomplished by the reseller's issuance of a letter of agency. *Winback*, 851 F. Supp. at 619.

This case really began in April 1992, when AT&T filed a complaint and application for a temporary restraining order alleging that one of Inga's other companies, One Stop Financial, Inc., was infringing on AT&T's trademarks and service marks, falsely representing that it was affiliated with AT&T and passing itself off as AT&T.[3] The parties resolved the case by entering into a Consent Final Order and Injunction, filed on May 7, 1992, which enjoined One Stop and its officers, directors, employees and agents from engaging in such practices.[4] In September 1993, AT&T filed a motion to hold One Stop in civil contempt of the Consent Order. One Stop and Inga defended by arguing that their sales and marketing representatives, over whom One Stop had no control, were responsible for any infringing acts.[5] Consequently, as a result of AT&T's application, on September 27, 1993, the Final Order and Injunction was amended to obligate One Stop to serve each of its sales agents with a copy of the Order, and, in turn, to obligate each of the primary agents to serve the Order upon all subagents they had authorized to market under the name One Stop Financial, Inc.

Soon after the amended Final Order was filed, AT&T filed a second application to hold One Stop and Inga in contempt, this time basing its claim for relief on allegedly infringing activity on the part of Winback, Inga's other

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[3] *AT&T v. One Stop Fin., Inc.*, No. 92-1489 (D.N.J.) (NHP). *See* AT&T Brief at 3.

[4] *See* AT&T Complaint ¶ 48 at app. at 20; Winback Answer ¶ 48 at app. 379.

[5] *See* AT&T Brief at 4.

company (and the corporate defendant in the instant action). *Winback*, 851 F. Supp. at 620. The district court informed the parties that the motion for contempt would not be heard until discovery was completed. AT&T responded by filing this action, on December 13, 1993, against Winback and Inga, alleging false designation of origin, passing off, and unprivileged imitation in violation of section 43(a) of the Lanham Act, 15 U.S.C. § 1125, as well as various state common law claims. AT&T sought, among other relief, temporary restraints, and preliminary and permanent injunctions. The district court held a hearing on AT&T's application for a temporary restraining order on December 15, 1993. *See* Order to Show Cause With Temporary Restraints, app. at 366. On December 17, 1993, the district court issued a temporary restraining order enjoining and restraining "Defendants, together with their officers, agents, servants, employees, attorneys and all persons in active concert or participation with them" from:

> (a) employing any oral communication, advertisement, label, sign, flyer, envelope or correspondence or any other written documentation that falsely designates the origin of Defendants' goods or services as being those of the American Telephone and Telegraph Company or of AT&T, or that is likely to cause confusion as to whether Defendants' goods or services are sponsored by, or affiliated with the American Telephone and Telegraph Company;
>
> (b) engaging, producing, creating, encouraging, aiding or abetting any oral communication, advertisement, label, sign, flyer, envelope, correspondence or any other oral or written communication which enables Defendants to pass off

> their goods or services as being those of the American Telephone and Telegraph Company.

Order to Show Cause at 3-4, app. at 367-68. The Order prevented the defendants and their agents from "introducing into . . . commerce . . . any document promoting or identifying Winback and Conserve Program, Inc., which does not conspicuously identify Winback and Conserve Program, Inc. as a corporation through the use of the abbreviation, 'Inc.' and which does not identify a business mailing address." *Id.* Finally, Winback was ordered to serve a copy of the Order upon its primary agents (identified in an Appendix to the Order) who in turn were obligated to serve the Order on any sub-agents they had employed to do Winback's marketing. The court in that Order set a return date for a hearing on AT&T's application for a preliminary injunction. Winback answered AT&T's complaint on January 18, 1994. After expedited discovery, full briefing, and the submission of detailed affidavits, the district court held a hearing on AT&T's application, between March 1 and March 11, 1994.

At the hearing, much of the testimony described Winback's method of attracting customers. The evidence demonstrated that Winback employs no marketing or sales people on its staff. Rather, it attracts business solely through the use of sales networks and/or marketing representatives. Specifically, it uses about 50 different marketing agencies, which in turn employ or contract with scores more individual sales representatives. The representatives work out of their own offices, and receive no supplies, equipment or space from Winback. Winback

compensates these representatives purely on a commission basis, and the representatives are under no minimum obligation to Winback. Indeed, many representatives market for various resellers. This does not mean, however, that there is little connection between the agents and Winback. The agents are supplied with forms which AT&T requires to be completed to transfer customers to Winback's services (the transfer forms). Until October 13, 1993, these forms contained the initials "AT&T" and the AT&T globe symbol. On that date, AT&T ordered the resellers to delete those references. These forms also make reference to Winback. Moreover, at least one of the representatives contacts Inga on a regular basis, and Inga attempts to "polic[e]" the agents to avoid misrepresentations. *Winback*, 851 F. Supp. at 619.

Generally, as the evidence before the district court demonstrated, sales representatives contact end-users and present them with the Winback plan. The representatives then send prospective customers various forms, including a facsimile cover sheet, informational documents, the transfer form, and a Main Billed Telephone Numbers Location List ("main billed form"). Interested end-users complete the transfer form and the main billed form and send them back to the representative, who then forwards them to the primary marketing or sales agency. The agency, in turn, sends the forms to Winback, which returns them to AT&T. Each month, AT&T sends Winback a check for the difference between the discount given Winback by AT&T and the average discount Winback passes on to the end-user. Winback then sends commission checks to the various marketing representatives.

At the hearing, AT&T presented evidence that end-user customers were deceived into believing they were dealing with AT&T. First, many witnesses testified that they received telephone solicitations by Winback representatives informing them that they were affiliated with AT&T. *See e.g., Winback*, 851 F. Supp. at 621 (citing testimony of Arthur Sanchez and Daniel Flood); certification of Daniel A. Flood at 2, app. 72. Several witnesses also testified that information contained in various written materials misled them into believing that Winback was a division of AT&T.

As an example, one employee of an end-user, Debra Vogel, a telecommunications employee of The Toro Company, testified that she was confused by a facsimile transmission entitled "Winback & Conserve Program for AT&T 800 Customers" that she received from a Winback representative. Because "Winback & Conserve Program" was not stated as a separate entity (such as by including the letters "Inc." after "Program"), Vogel believed that Winback & Conserve Program was a marketing arm of AT&T and that the documents she received were official AT&T documents. *Winback*, 851 F. Supp. at 620-21; certification, app. at 36-40. More generally, several other end-user customers testified to being confused by the following materials they received from Winback's sales representatives: (1) a facsimile cover sheet not mentioning Winback but stating that "[w]e are bringing you together for less with AT&T network services", *see Winback*, 851 F. Supp. at 621; certification of Arthur W. Sanchez at 4 & Exhibit A, app. at 58, 61; (2) a facsimile cover sheet entitled "The New AT&T 800 Winback & Conserve Program" and stating "Please authorize discount acceptance

immediately and fax back to 1-800-251-5491 for forwarding to the AT&T Input Department", *see Winback*, 851 F. Supp. at 621-22 (citing testimony of Ekaterina Hall, Karen Kelly, Daniel Flood, and Phillip Kenney)[6]; (3) the transfer form displaying the AT&T initials and globe symbol in the corner, *id.* (citing testimony of Ekaterina Hall, Karen Kelly, Arthur Sanchez, Daniel Flood, Thomas Malanga, and Phillip Kenney); (4) a main billed form stating "Winback & Conserve Program" at the top, *id.* at 621-23 (citing testimony of Debra Dahl Vogel, Ekaterina Hall, Karen Kelly, Phillip Kenney, James Angelici and Kay Mills); (5) an information form detailing the Winback program and instructing the customer to complete the accompanying main billed form "provided to us by AT&T", *id.* at 621 (citing testimony of Arthur Sanchez); (6) a form entitled "AT&T 800 Readyline Summary of Charges", displaying the AT&T initials and globe, *id.* at 621 (citing testimony of Daniel Flood); and (7) several other documents referencing the "Winback and Conserve Program". *Id.* at 621-23. Based on the oral representations and the written documents, the witnesses testified that they believed they were dealing with AT&T's Winback and Conserve Program, rather than with a reseller that was a separate corporation. *Id.*[7] However, the evidence indicated that all the allegedly infringing actions were

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[6] Apparently, AT&T does not have an input department.

[7] As noted above, AT&T originated the transfer form and the main billed form, which contain the initials AT&T and the AT&T globe symbol. On October 13, 1993, AT&T ordered all resellers to eliminate the AT&T initials and the globe logo from those forms.

performed by the sales agencies or the sales representatives, without the knowledge, consent, assistance or encouragement of Winback or Inga. *Id.* at 623.

Based on this evidence, the district court found that "[t]here is no question that [AT&T] submitted sufficient proofs to the Court to establish that consumers have been confused by certain oral misrepresentations made by and written documents provided by the Winback sales representatives." *Id.* at 630. The court then addressed whether Winback and Inga could be held responsible for the acts of their sales representatives. The court looked to the common law of torts "to determine the boundaries of liability." *Id.* at 624. It then asked whether, pursuant to New Jersey law of agency, Winback and/or Inga could be held vicariously liable for the torts of their sales agents. Relying primarily on a recent New Jersey Supreme Court case distinguishing between agents (for whose torts the principal may be liable) and independent contractors (for whose torts the principal generally may not be held liable), the court found that AT&T only had established that the sales representatives were independent contractors. AT&T, in the court's view, had not met its burden of proving that Winback and/or Inga exercised sufficient control over their sales representatives to constitute an agency relationship. The court primarily relied on the facts that the representatives are commissioned rather than salaried, that they work on behalf of a number of companies, and that their operating expenses and business are purely their own responsibilities. Thus, the court concluded, "the level of joint activity between [Winback] and Inga and the sales representatives is . . . minimal and

peripheral to the nuts and bolts of the business of marketing and promoting." *Id.* at 626. Furthermore, the court found that AT&T contributed to the customers' confusion, that the resale business was inherently confusing as to the point of origin of the service, and that the public interest did not weigh in favor of granting an injunction. Thus, the district court denied AT&T's application for a preliminary injunction, and vacated the temporary restraints.

AT&T timely filed a notice of appeal from the district court's order. We have jurisdiction pursuant to 28 U.S.C. § 1292(a)(1). The district court properly exercised jurisdiction over AT&T's Lanham Act claims pursuant to 28 U.S.C. §§ 1331, 1338, and 1367.

II. Discussion

A. Standard of Review

"[T]he grant of injunctive relief is an extraordinary remedy . . . which should be granted only in limited circumstances." *Frank's GMC Truck Center, Inc. v. General Motors Corp.*, 847 F.2d 100, 102 (3rd Cir. 1988) (citing *United States v. City of Philadelphia*, 644 F.2d 187, 191 n. 1 (3d Cir. 1980)). This proposition is particularly apt in motions for *preliminary* injunctions, when the motion comes before the facts are developed to a full extent through the normal course of discovery. In ruling on a motion for a preliminary injunction, the court must consider:

> (1) the likelihood that the plaintiff will prevail on the merits at final hearing; (2) the extent to which the plaintiff is being irreparably harmed

> by the conduct complained of; (3) the extent to which the defendant will suffer irreparable harm if the preliminary injunction is issued; and (4) the public interest. *Opticians Ass'n v. Independent Opticians*, 920 F.2d 187, 191-92 (3d Cir. 1990) The injunction should issue only if the plaintiff produces evidence sufficient to convince the district court that all four factors favor preliminary relief. *Id.* at 192.

Merchant & Evans, Inc. v. Roosevelt Bldg. Prods., 963 F.2d 628, 632-33 (3d Cir. 1992).[8]

Our review of the district court's decision is limited. We must affirm unless, in denying the motion, " 'there has been an abuse of discretion, an error of law, or a clear mistake in the consideration of the proof.' " *Frank's GMC Truck Center*, 847 F.2d at 101 (quoting *Moteles v. University of Pennsylvania*, 730 F.2d 913, 918 (3d Cir.), *cert. denied*, 469 U.S. 855, 105 S.Ct. 179 (1984)). The scope of our review is narrow because " 'the grant or denial of a preliminary injunction is almost always based on an abbreviated set of facts, requiring a delicate balancing [that] is the responsibility of the district judge.' " *Frank's GMC Truck*

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[8] In earlier cases, we have held that these latter two factors should be taken into account only when they are relevant. *Hoxworth v. Blinder, Robinson & Co.*, 903 F.2d 186, 197-98 (3d Cir. 1990); *Morton v. Beyer*, 822 F.2d 364 , 367 & n.3 (3d Cir. 1987); *Oburn v. Shapp*, 521 F.2d 142, 147 (3d Cir. 1975). As a practical matter, if a plaintiff demonstrates both a likelihood of success on the merits and irreparable injury, it almost always will be the case that the public interest will favor the plaintiff. Nonetheless, district courts should award preliminary injunctive relief only upon weighing all four factors. *See Duraco Prods., Inc. v. Joy Plastic Enter., Ltd.*, No. 93-3323, slip op. at 11 (3d Cir. Nov. 15, 1994).

Center, 847 F.2d at 101-02 (alteration in original) (quoting *United States Steel Corp. v. Fraternal Ass'n of Steelhaulers*, 431 F.2d 1046, 1048 (3d Cir. 1970)).

Despite the narrow scope of review, "any determination that is a prerequisite to the issuance of an injunction . . . is reviewed according to the standard applicable to that particular determination." *Merchant & Evans*, 963 F.2d at 633 (alteration in original) (quoting *John F. Harkins Co. v. Waldinger Corp.*, 796 F.2d 657, 658 (3d Cir. 1986), *cert. denied*, 479 U.S. 1059, 107 S.Ct. 939 (1987)). Therefore, " '[d]espite oft repeated statements that the issuance of a preliminary injunction rests in the discretion of the trial judge whose decisions will be reversed only for "abuse", a court of appeals must reverse if the district court has proceeded on the basis of an erroneous view of the applicable law.' " *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1242 (3d Cir. 1983) (quoting *Donovan v. Bierwirth*, 680 F.2d 263, 269 (2d Cir.), *cert. denied*, 459 U.S. 1069, 103 S.Ct. 488 (1982)), *cert. dismissed*, 459 U.S. 1033, 104 S.Ct. 690 (1984). In the final analysis, "[w]e review the district court's conclusions of law in a plenary fashion, its findings of fact under a clearly erroneous standard, and its decision to grant or deny an injunction for abuse of discretion." *Johnson & Johnson-Merck Consumer Pharmaceuticals, Inc. v. Rhone-Poulenc Rorer Pharmaceuticals, Inc.*, 19 F.3d 125, 127 (3d Cir. 1994) (citations omitted); *see also Duraco Prods.*, slip op. at 12.

B. AT&T's section 43(a) claim

1. Generally

The district court focused primarily on whether AT&T had demonstrated a "likelihood of success on the merits" and held that AT&T had not met its burden by a preponderance of the evidence. We, likewise, will focus on the district court's conclusion that AT&T failed to demonstrate a likelihood of success on the merits. As a threshold matter, this appeal requires us to decide a question of statutory construction, namely, the extent to which federal courts interpreting federal statutes may import into such statutes common law doctrines of secondary liability.

Section 43(a) of the Lanham Act, originally enacted in 1946 and amended substantially in 1988, provides in relevant part that:

> [a]ny person who, on or in connection with any goods or services . . . uses in commerce any word, term, name, symbol or device . . . or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact which . . . is likely to deceive as to the affiliation, connection or association of such person with another person, or as to origin, sponsorship or approval of his or her goods, services, or commercial activities by another person . . . shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a). By containing such broad language, the Act "proscribes not only trademark infringement in its narrow sense, but more generally creates a federal

cause of action for unfair competition." *Duraco Prods., Inc.*, slip op. at 12; *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1140 (3d Cir. 1986) (citing *Williams v. Curtiss-Wright Corp.*, 691 F.2d 168, 172 (3d Cir. 1982)); *see also* 3 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition, § 27.02[1] at 27-13 (hereinafter "McCarthy on Trademarks"). In order to succeed on its claim, AT&T must prove by a preponderance of the evidence that:

> (1)Winback uses a false designation of origin, as defined in the Act;
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> (2) That such use of a false designation occurs in interstate commerce in connection with goods and services;
>
> (3) That such false designation is likely to cause confusion, mistake or deception as to the origin, sponsorship, or approval of Winback's goods or services by another person; and
>
> (4) That AT&T has been or is likely to be damaged.

See 3 McCarthy on Trademarks, § 27.03[1][a] at 27-21.[9]

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[9] AT&T's allegations are an amalgam of a classic section 43(a) claim alleging misuse of a mark, a claim of false advertising pursuant to 15 U.S.C. § 1125(a)(2), and a claim of passing off. In the false advertising area, we have held that a plaintiff must prove by a preponderance of the evidence:

> '(1) that the defendant has made false or misleading statements as to his own product [or another's]; (2) that there is actual deception or at least a tendency to deceive a substantial portion of the intended audience; (3) that the deception is material in that it is

This appeal focuses on a subset of the first prong of the test; whether Winback falsely designated the origin of its services. AT&T does not argue that Winback directly infringed on its rights. Rather, AT&T bases its claim for relief upon the actions of Winback's sales representatives. It contends that under common law theories of agency including the doctrine of apparent authority, Winback is

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> likely to influence purchasing decisions; (4) that the advertised goods travelled in interstate commerce; and (5) that there is a likelihood of injury to the plaintiff in terms of declining sales, loss of good will, etc.'

Johnson & Johnson-Merck, 19 F.3d at 129 (quoting *U.S. Healthcare, Inc. v. Blue Cross of Greater Philadelphia*, 898 F.2d 914, 922-23 (3d Cir. 1990), *cert. denied*, 498 U.S. 816, 111 S.Ct. 58 (1990) (quoting *Max Daetwyler Corp. v. Input Graphics, Inc.*, 545 F. Supp. 165, 171 (E.D. Pa. 1982)). In cases alleging unprivileged imitation of the plaintiff's marks, a plaintiff must prove "(1) that the imitated feature is non-functional, (2) that the imitated feature has acquired a 'secondary meaning,' and (3) that consumers are likely to confuse the source of plaintiff's product with that of defendant's product." *American Home Prods. Corp. v. Barr Lab., Inc.*, 834 F.2d 368, 370 (3d Cir. 1988) (citation omitted). A claim of passing off generally focuses solely on the likelihood of the customers' confusion, and involves a comparison between the two products. The essence of AT&T's claims is not that the defendants misled customers purely by misuse of the AT&T initials and the AT&T globe, but that by a series of misrepresentations – including oral representations, misleading use of AT&T's marks, and misleading description of Winback's name – the defendants confused end-user customers into believing Winback was affiliated with AT&T. Thus, none of the tests outlined in this footnote adequately captures the essence of AT&T's claims. The test we employ is geared to the factual situation of this case.

liable for the infringing actions of its sales representatives. Winback disclaims any responsibility for its sales representatives, over whom they claim to have little control.

The statute, by referring to "any person" who infringes on a plaintiff's rights, is silent as to the existence, or the scope, of vicarious liability; the statutory language is directed solely at the infringers themselves. Thus, we are called upon to examine whether the statute permits us to look beyond its contours at all. *See, e.g., Central Bank of Denver, N.A. v. First Interstate Bank of Denver, N.A.*, ___ U.S. ___, ___, 114 S.Ct. 1439, 1446 (1994) ("With respect [to] the scope of conduct prohibited by [a statute], the text of the statute controls our decision."); *Electronic Lab. Supply Co. v. Cullen*, 977 F.2d 798, 806 (3d Cir. 1992) (" 'Where a statute specifically limits those who may be held liable for the conduct described by the statute, the courts cannot extend liability . . . to those who do not fall within the categories of potential defendants described by the statute.' ") (quoting *In re Equity Corp. of America Sec. Litig.*, 416 F. Supp. 161, 181 (C.D. Cal. 1976)). The questions to be addressed are (1) whether the district court was correct in importing common law doctrines into section 43(a) of the Lanham Act and (2) if so, whether the district court properly applied those doctrines.

2. The effect of *Central Bank*

Generally, "the applicability of common law doctrines in litigation under federal statutes depends on

whether those principles advance the goals of the particular federal statute which plaintiffs allege has been violated." *Petro-Tech, Inc. v. Western Co. of North America*, 824 F.2d 1349, 1356 (3d Cir. 1987) (citing *American Soc'y of Mechanical Eng'rs v. Hydrolevel Corp.*, 456 U.S. 556, 570, 102 S.Ct. 1935, 1944-45 (1982)); *O'Neil v. Q.L.C.R.I., Inc.*, 750 F. Supp. 551, 555 (D.R.I. 1990). Of course, the days of a general federal common law have long since passed, *see Erie R. Co. v. Tompkins*, 304 U.S. 64, 78, 58 S.Ct. 817, 822 (1938), and courts should be wary about looking outside of the statute itself to expand the scope of liability, lest they accurately be accused of legislating from the bench. *Cf. Stomper v. Amalgamated Transit Union, Local 241*, 27 F.3d 316, 319 (7th Cir. 1994) ("Once Congress has legislated, the common-law rules courts apply to fill interstices fall away."). Thus, when a statute is self-contained, the scope of our interpretation is constrained by the statutory language itself. *See, e.g., Central Bank*, ___ U.S. at ___, 114 S.Ct. at 1447. Nonetheless, when the importation of common law doctrines will advance the goals of the statute, courts may utilize the doctrines, provided the courts "conform [the] implied remedies to the rules Congress devised for the remedies it authorized expressly." *Stomper*, 27 F.3d at 319.

Winback implicitly argues that if we import the doctrines of agency and apparent authority into the statute, we would be violating this settled rule of construction and that we would be legislating in areas where Congress has failed to act. Therefore, Winback concludes, AT&T's argument more properly is made to Congress rather than

to the courts.[10] It relies for this proposition on *Central Bank*, a recent Supreme Court case refusing to find parties liable for aiding and abetting the violation of a federal securities statute.

In *Central Bank*, the Supreme Court considered whether section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), which has been held to create a private cause of action against parties who "commit a manipulative or deceptive act in connection with the purchase of or sale of securities . . . extends as well to those who do not engage in the manipulative or deceptive practice but who aid and abet the violation." *Id.* at ___, 114 S.Ct. at 1443. Examining the language of the statute, as well as the Court's own tendency to construe narrowly the scope of conduct prohibited by the Exchange Act, the Court concluded that an action cannot be maintained for aiding and abetting securities fraud: "[T]he statute prohibits only the making of a material

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[10] It does not appear that Winback raised this argument before the district court. The district court noted that "[Winback] and Inga do not dispute the applicability of the common law of agency." *Winback*, 851 F. Supp. at 624. On this appeal, however, Winback states that "[i]t is the position of the defendants that the Lanham Act permits neither vicarious liability nor aiding and abetting liability." Appellee's brief at 34. It also writes: "The statute covers only primary liability. It does not include vicarious liability, respondeat superior liability or aiding and abetting liability. The defendants have not been accused personally of violating the statute and cannot be held liable under it. This case is as simple as that." *Id.* at 37. At oral argument, Winback explicitly made this argument. AT&T does not contend that Winback waived this argument by failing to raise it before the district court. Thus, we address it on the merits.

misstatement (or omission) or the commission of a manipulative act [and this] proscription does not include giving aid to a person who commits a manipulative or deceptive act." *Id.* ___, 114 S.Ct. at 1148.

The language of *Central Bank* is undeniably broad, and the dissent warned that other mechanisms of common law secondary liability – such as "respondeat superior and other common-law agency principles" – may not survive the majority's construction of Section 10(b) of the Exchange Act. *Id.* at ___, 114 S.Ct. at 1460 n.12 (Stevens, J. dissenting). Nonetheless, we do not believe that the Court's restrictive reading of the Exchange Act impacts on the determination of the scope of liability under the Lanham Act.

In *Central Bank*, the Supreme Court primarily was concerned with broadening the range of unlawful conduct beyond that specifically proscribed by the Act. As the Court framed the issue, aiding and abetting constituted a separate cause of action, and in order to find such liability, the Court would have to imply a private right of action under the statute beyond that which already had been implied. *See id.* at ___, 114 S.Ct. at 1447 ("statutory text controls the definition of conduct covered by § 10(b) [and] 'the language of Section 10(b) does not in terms mention aiding and abetting.' ") (quoting Brief for Securities and Exchange Commission as *Amicus Curiae* at 8). Thus, the Court saw the case as involving another in a series of attempts by plaintiffs and the SEC to broaden the statute to prohibit conduct simply not covered by the actual statutory language. *See, e.g., Chiarella v. United States*, 445 U.S. 222, 235, 100 S.Ct. 1108, 1118 (1980) ("When an allegation of fraud [under section 10(b)] is

based upon nondisclosure, there can be no fraud absent a duty to speak"); *Santa Fe Indus., Inc. v. Green*, 430 U.S. 462, 476, 97 S.Ct. 1292, 1302 (1977) (statute does not prohibit "a breach of fiduciary duty by majority stockholders, without any deception, misrepresentation, or nondisclosure" because such an act is not manipulative or deceptive conduct); *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 201, 96 S.Ct. 1375, 1384-85 (1976) (refusing to expand scope of liability under section 10(b) of Securities Exchange Act beyond knowing or intentional misconduct). Once again, the Court simply refused to expand "the scope of conduct prohibited by the statute." *Central Bank*, ___ U.S. at ___, 114 S.Ct. at 1453.

The Supreme Court's wariness therefore rested on the nature of aiding and abetting liability itself. And in fact, aiding and abetting liability is not a well-settled mechanism for imposing civil liability. Rather, "[a]iding and abetting liability traditionally applies to criminal offenses", *see Electronic Lab. Supply Co.*, 977 F.2d at 805; *Petro-Tech*, 824 F.2d at 1356. While it has been borrowed in certain civil contexts, "[p]recedent, except in the securities area, is largely confined to isolated acts of adolescents in rural society." *Halberstam v. Welch*, 705 F.2d 472, 489 (D.C. Cir. 1983) (also quoted in *Central Bank*, ___ U.S. at ___, 114 S.Ct. at 1450). This is because aiding and abetting liability. with its focus on the defendant's substantial and knowing assistance to the commission of a tort, rests by definition upon acts that encourage a tort rather than acts constituting the tort. *See, e.g., Halberstam*, 705 F.2d at 481-86 (canvassing aiding and abetting tort cases). By definition then, the act rendered unlawful

under an aiding and abetting theory is different than the act rendered unlawful by the underlying tort.

By contrast, courts imposing liability on agency theories are not expanding the category of affirmative conduct proscribed by the relevant statute; rather, they are deciding on whose shoulders to place responsibility for conduct *indisputably proscribed* by the relevant statute. The principal is held liable not because it committed some wrongdoing outside the purview of the statute which assisted the wrongdoing prohibited by the statute, but because its *status* merits responsibility for the tortious actions of its agent. *Cf. Petro-Tech, Inc.*, 824 F.2d at 1356-58 (discussing aiding and abetting and vicarious liability separately).[11] Indeed, in some instances, liability cannot be imposed without reference to agency principles – a corporation can only act through its agents, and therefore

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[11] Prosser and Keeton have this to say in a discussion of the basis for vicarious liability:

> Since B himself has been free from all fault, when he is held liable to C it is in one sense a form of strict liability. In another it is not. The foundation of the action is still negligence, or other fault, on the part of A; and all that the law has done is to broaden the liability for that fault by imposing it upon an additional, albeit innocent, defendant. It is still an action for negligence, and the ordinary rules of negligence liability are still applied to it. W. Page Keeton, Prosser & Keeton on Torts, § 69 at 499 (5th ed. 1984) (hereinafter Prosser & Keeton on Torts). In the context of cases like this one, the status of the defendant is of one who has authorized another to conclude contracts with third parties and who directly profits from those contracts.

only can be bound through application of agency principles.

Moreover, unlike aiding and abetting liability, which in the federal system largely has been confined to securities fraud, agency doctrine, including the theory of apparent authority, has long been a part of the federal system. As long ago as 1928, the Supreme Court applied as a matter of federal common law general principles of agency law. In so doing, it held that "few doctrines of the law are more firmly established or more in harmony with accepted notions of social policy than that of the liability of the principal without fault of his own." *Gleason v. Seaboard Air Line Ry. Co.*, 278 U.S. 349, 356, 49 S.Ct. 161, 162-63 (1929). More recently, in *American Soc'y of Mechanical Eng'rs, Inc. v. Hydrolevel Corp.*, the Supreme Court began its analysis of whether apparent authority applies in the antitrust context with the premise that "[t]he apparent authority theory has long been the settled rule in the federal system." *Hydrolevel*, 456 U.S. at 567, 102 S.Ct. at 1943 (citing *Ricketts v. Pennsylvania R.R. Co.*, 153 F.2d 757, 759 (2d Cir. 1946)).[12] In *Hydrolevel*, the Supreme

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[12] The Court stated:

> In a wide variety of areas, the federal courts . . . have imposed liability upon principals for the misdeeds of agents acting with apparent authority. *See, e.g., Dark v. United States*, 641 F.2d 805 (9th Cir. 1981) (federal tax liability); *National Acceptance Co. v. Coal Producers Assn.*, 604 F.2d 540 (7th Cir. 1979) (common-law fraud); *Holloway v. Howerdd*, 536 F.2d 690 (6th Cir. 1976) (federal securities fraud); *United States v. Sanchez*, 521 F.2d 244 (5th Cir. 1975) (bail bond fraud), *cert. denied*, 429 U.S. 817, 97 S.Ct. 59 (1976); *Kerbs v. Fall River Industries, Inc.*, 502 F.2d 731 (10th Cir. 1974)

Court followed the approach of the Restatement (Second) of Agency, and held that "a principal is liable for an agent's misrepresentations that cause pecuniary loss to a third party, when the agent acts within the scope of his apparent authority." *Id.* at 566, 102 S.Ct. at 1942 (citing Restatement (Second) of Agency §§ 249, 262 (1957); *Rutherford v. Rideout Bank*, 80 P.2d 978 (Cal. 1938)).

More recently, following earlier precedents, we have recognized respondeat superior liability under Title VII of the Civil Rights Act of 1964. *Spain v. Gallegos*, 26 F.3d 439, 450 (3d Cir. 1994). *See also Karibian v. Columbia Univ.*, 14 F.3d 773, 780 (2d Cir.) ("an employer is liable for the discriminatorily abusive work environment created by a supervisor if the supervisor uses his actual or apparent authority to further the harassment, or if he was otherwise aided in accomplishing the harassment by the existence of the agency relationship"), *cert. denied*, ___ U.S. ___, 114 S.Ct. 2693 (1994). And "[f]ederal courts have routinely applied [*respondeat superior*] principles in fair housing cases and held principals liable for the discriminatory acts of their agents." *City of Chicago v. Matchmaker Real Estate Sales Center, Inc.*, 982 F.2d 1086, 1096 (7th Cir. 1992), *cert. denied*, ___ U.S. ___, 113 S.Ct. 2961 (1993); *see also Northside Realty Assocs., Inc. v. United States*, 605 F.2d

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(federal securities fraud); *Gilmore v. Constitution Life Ins. Co.*, 502 F.2d 1344 (10th Cir. 1974) (common-law fraud).

Hydrolevel, 456 U.S. at 568, 102 S.Ct. at 1943.

1348, 1353-54 (5th Cir. 1979). Thus, *Central Bank*'s discussion of aiding and abetting should not be transplanted into the more settled realm of agency law.[13]

But beyond this, it is quite clear under *Central Bank*'s reasoning, the Supreme Court was concerned with the Exchange Act itself under which the private right of action already had been judicially implied. Accordingly, we think that the Court did not intend to overrule settled constructions of other statutes that relied on common law doctrines to determine the scope of liability. See *Central Bank*, ___ U.S. at ___, 114 S.Ct. at 1444 ("we pa[y] close attention to the statutory text in defining the scope of conduct prohibited by § 10(b)"). Thus, in contrast to the Court's restrictive reading of the Exchange Act, the Court has endorsed and applied a theory of secondary liability for trademark infringement that comes very close to aiding and abetting. The Court first enunciated the rule over 70 years ago, prior to the enactment of the Lanham Act, when the Court was concerned with constructing and enforcing a common law of unfair competition. *William R.*

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[13] Winback also relies on *Monell v. Dep't of Social Servs. of City of New York*, 436 U.S. 658, 98 S.Ct. 2018 (1978), which held that a municipality could not be held liable under 42 U.S.C. § 1983 under a theory of *respondeat superior* liability. That case is clearly inapposite. There, the Court relied not just on the language of the statute, but the scheme of causation that must be proven in order to hold a party liable. Moreover, the Court relied heavily on the legislative history and the fact that "creation of a federal law of *respondeat superior* would have raised all the constitutional problems associated with the obligation to keep the peace, an obligation Congress chose not to impose because it thought imposition of such an obligation unconstitutional." *Id.* at 693, 98 S.Ct. at 2037.

Warner & Co. v. Eli Lilly & Co., 265 U.S. 526, 44 S.Ct. 615 (1924). In that case, the Court held that a manufacturer of a pharmaceutical product could in certain instances be held liable for acts of infringement by distributors and retailers of the product. Relying on the general proposition that "[o]ne who induces another to commit a fraud and furnishes the means of consummating it is equally guilty and liable for the injury," *id.* at 530-31, 44 S.Ct. at 617 (citing *Hostetter Co. v. Brueggeman-Reinert Distilling Co.*, 46 Fed. 188, 189 (C.C.D. Mo. 1891)), the Court reached what it saw as a self-evident conclusion: an entity is liable for trademark infringement if it contributes to the infringement. The theory of "contributory infringement", as it came to be called, survived into the statutory era. As the Supreme Court explained in a case involving section 32 of the Lanham Act:

> [L]iability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another. Even if a manufacturer does not directly control others in the chain of distribution, it can be held responsible for their infringing activities under certain circumstances. Thus, if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.

Inwood Labs., Inc. v. Ives Labs., Inc., 456 U.S. 844, 854, 102 S.Ct. 2182, 2188 (1982). "The two elements for contributory infringement are thus summed up as (1) supply of a

product, and (2) knowledge of direct infringement." *Fonovisa, Inc. v. Cherry Auction, Inc.*, 847 F. Supp. 1492, 1498 (E.D. Cal. 1994). Of course, there is no reason why the doctrine should be confined in application to manufacturers, and indeed, other courts have expanded it beyond that particular origin. *See, e.g., Mini Maid Servs. Co. v. Maid Brigade Sys., Inc.*, 967 F.2d 1516, 1522 (11th Cir. 1992) (doctrine could hold franchisor liable for infringing actions of its franchisee when "franchisor explicitly or implicitly encouraged the trademark violations"); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (landlord of flea market could be liable for its tenant's sale of an infringing product where the landlord is found to have been "wilfully blind" to the infringing acts); *but see Fonovisa*, 847 F. Supp. at 1498 (refusing to apply doctrine of contributory infringement "to impose liability on third parties who have never had a traditional role in enforcing the Lanham Act").[14]

3. Is there agency liability under section 43(a)?

The question, then, is whether application of agency theory, including the doctrine of apparent authority,

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[14] If the doctrine of contributory infringement were the sole means of imposing liability for indirect conduct, AT&T would be without a section 43(a) remedy in this case. As the district court recognized, AT&T is not proceeding under a contributory infringement theory. Nor does it appear that it could. The record adequately supports the district court's conclusion that "in the instances where [AT&T] brought objectionable acts of the sales representatives to the attention of Inga, Inga took appropriate steps to reprimand and discipline the sales representative." *Winback*, 851 F. Supp. at 631.

would further the foals of the statute. *See, e.g., Hydrolevel*, 456 U.S. at 570, 102 S.Ct. at 1944. In *Hydrolevel*, the Court, finding that "under general rules of agency law, principals are liable when their agents act with apparent authority and commit torts analogous to the antitrust violation presented by this case", simply looked at the policy behind the antitrust laws to determine whether the doctrine should be applied. *Id.* at 565-66, 570, 102 S.Ct. at 1942, 1944. Because "apparent authority theory is consistent with the congressional intent to encourage competition", the Court applied the doctrine. *Id.*

The contributory infringement cases cited above demonstrate that in certain instances, secondary, indirect liability is a legitimate basis for liability under the federal unfair competition statute. There is a good reason for this: the Lanham Act is derived generally and purposefully from the common law tort of unfair competition, and its language parallels the protections afforded by state common law and statutory torts. Thus, the conduct prohibited by section 43(a) of the Lanham Act is even more analogous to common law torts than the antitrust laws at issue in *Hydrolevel*. The Act federalizes a common law tort. In construing the Act, then, courts routinely have recognized the propriety of examining basic tort liability concepts to determine the scope of liability. *See, e.g., Electronic Lab. Supply Co., Inc.*, 977 F.2d at 806 (section 34(d)(11) of Lanham Act is like a "tort" statute); *Hard Rock Cafe*, 955 F.2d at 1148 (trademark infringement is a "species of tort" and "we . . . have turned to the common law to guide our inquiry into the appropriate boundaries of liability"); *David Berg and Co. v. Gatto Int'l Trading Co., Inc.*, 884 F.2d 306, 311 (7th Cir.

1989) ("unfair competition and trademark infringement are tortious"); 3 McCarthy on Trademarks § 25.03[1] at 25-34 ("trademark infringement and unfair competition are torts"). We previously have held that the "federal law of unfair competition under § 43(a) is not significantly different from the New Jersey [common] law of unfair competition" and have applied the identical test to both claims. *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1141 (3rd Cir. 1986); *see also American Home Prods. Corp. v. Barr Lab., Inc.*, 656 F. Supp. 1058, 1061 (D.N.J. 1987) (same), *aff'd*, 834 F.2d 368 (3d Cir. 1987). Other courts have ruled similarly. *See, e.g., Words & Data, Inc. v. GTE Communications Servs., Inc.*, 765 F. Supp. 570, 579 (W.D. Mo. 1991) ("Missouri common law regarding unfair competition is coextensive with federal law"); *Worthington Foods, Inc. v. Kellogg Co.*, 732 F. Supp. 1417, 1431 (S.D. Ohio 1990) ("an analysis appropriate for a determination of liability under section 43(a) of the Lanham Act is also appropriate for determining liability under the Ohio Deceptive Trade Practices Act"). Therefore, because section 43(a) parallels state tort law and is derived from tort common law, it is self-evident that application of at least some tort concepts of liability will "advance the goals of [the Act]." *Petro-Tech, Inc.*, 824 F.2d at 1356.

Applying the analysis to the facts of this case, it is clear that liability based on agency principles is often appropriate.[15] The Lanham Act has the broad purpose of

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[15] The one case we have found that addresses this issue held without analysis (and apparently without dispute) that a principal could be held liable for the infringing acts of its agent

"protect[ing] . . . competitors from a wide variety of misrepresentations of products and service. . . . " *20th Century Wear, Inc. v. Sanmark-Stardust, Inc.*, 747 F.2d 81, 91 n.13 (2d Cir. 1984), *cert. denied*, 470 U.S. 1052, 105 S.Ct. 1755 (1985). By expressly creating a private right of action against the infringer, the Act creates a "statutory tort of broad[] scope" that "provides a private remedy to a commercial plaintiff who meets the burden of proving that its commercial interests have been harmed by a competitor's misrepresentations]". *Sandoz Pharmaceuticals Corp. v. Richardson-Vicks, Inc.*, 902 F.2d 222, 227, 230 (3d Cir. 1990). Here, the parties recognize that AT&T has the right to sue the sales representatives under section 43(a). But, as Winback acknowledges, "it would be inconvenient for AT&T to initiate suit in separate jurisdictions against every independent contractor which it believes violated its intellectual property rights." Appellee br. at 13-14. The only feasible way for AT&T to assert its federal rights would be to sue the principal, who, if an agency relationship is established, is able to exercise at least some control over its agents, who authorized the sales representatives to enter into contracts on its behalf, and who receives direct financial benefits from those contracts. If the Act prohibited such liability, then infringing actions would continue undeterred, a company would benefit from undeterred unlawful acts, and the statute's purpose to prohibit unfair competition would go unrealized. " '[I]t would be unjust to permit an employer to

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acting with apparent authority. *See Dreamwerks Prod. Group, Inc. v. Party Masters, Inc.*, Br. No. 91-22949, 1992 Bankr. LEXIS 711 at * 47-48 (N.D. Ill. April 23, 1992).

gain from the intelligent cooperation of others without being responsible for the mistakes, the errors of judgment and the frailties of those working under his direction and for his benefit.' " *Petro-Tech*, 824 F.2d at 1358 (quoting Restatement (Second) of Agency § 219, comment (a) on subsection (1)).

Thus, we hold that the district court properly held that agency principles apply to the instant dispute. Nonetheless, our review of the record compels the conclusion that the district court erred by failing adequately to consider the various theories of agency under which Winback could be responsible for the torts of its representatives. In particular, the district court should have considered (1) whether Winback is liable for its representatives' acts, despite the fact that the representatives are independent contractors and despite the absence of a master-servant relationship; and (2) whether the representatives, even if not agents, were acting with the apparent authority of Winback.

4. Agency law

We now apply agency law to the facts of this case.[16] "An agency relationship is created when one party

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[16] This inquiry, though, raises an additional question, of what law to examine. Courts addressing Section 43(a) of the Lanham Act have looked both to the common law of the state where the infringing action took place, and to general principles of federal common law. *See, e.g., Hard Rock Cafe*, 955 F.2d at 1148 ("we have . . . turned to the common law to guide our inquiry into the appropriate boundaries of liability"); *Getty Petroleum Corp. v. Island Transp. Corp.*, 862 F.2d 10, 16 (2nd Cir. 1988) (declining to find right of contribution under the Lanham Act

consents to have another act on its behalf, with the principal controlling and directing the acts of the agent." *Sears Mortgage Corp. v. Rose*, 634 A.2d 74, 79 (N.J. 1993) (citing *Arcell v. Ashland Chem. Co.*, 328 A.2d 53, 65 (N.J. Law Div. 1977); 2A C.J.S. Agency § 37 (1972); Restatement (Second) of Agency § 1 (1958)). Depending upon the right of control capable of being exercised by the principal over the agent, agents are characterized either as servants or independent contractors. Servants generally are employees of the principal, and are subject to physical control by the principal. As one court has explained the distinction:

> 'An agent is a person who represents another in contractual negotiations or transactions akin thereto. A servant is a person who is employed to perform personal services for another in his affairs, and who, in respect to his physical movements in the performance of the service, is

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because "[t]here is no federal common law of contribution"), *cert. denied*, 490 U.S. 1006, 109 S.Ct. 1642 (1989).

In *W.T. Rogers Co., Inc. v. Keene*, 778 F.2d 334 (7th Cir. 1985), the Court of Appeals for the Seventh Circuit phrased the problem as follows: If the Lanham Act provides simply "a federal remedy for unfair competition", the court should apply the common law of the relevant state. If, however, the Act is interpreted as creating "a federal substantive law of unfair competition", then the suit is "to enforce a federal common law trademark, and the court is not bound to follow the common law of a particular state." *Id.* at 338. But in *Rogers* the court did not resolve the question. Because of uniformity concerns implicated by applying different law to identical claims, depending on the state where the complaint is filed, we are inclined to favor application of general principles of federal common law. Nonetheless, we need not decide this issue today, because in the doctrinal areas relevant to this case, New Jersey law is in accord with general principles of common law.

> subject to the other's control or right of control. Persons who render service but retain control over the manner of doing it are not servants.'

Sanders v. Rowan, 484 A.2d 1023, 1028 (Md. Ct. Sp. App. 1984) (quoting *Globe Indem. Co. v. Victill Corp.*, 119 A.2d 423, 427 (Md. 1956)). Thus, if " 'the employer assumes the right to control the time, manner, and method of executing the work, as distinguished from the right merely to require certain definite results in conformity to the contract,' " a master-servant agency relationship has been created. *Stewart v. Midani*, 525 F. Supp. 843, 845 (N.D. Ga. 1981) (applying Georgia law) (quoting *Blair v. Smith*, 41 S.E.2d 133, 135 (Ga. 1947)). If, however, the agent is not subject to that degree of physical control, but is only subject to the general control and direction by the principal, the agent is termed an independent contractor. *Id.* at 846; *see also Nazworth v. Swire Florida, Inc.*, 486 So.2d 637, 638 (Fla. Dist. Ct. App. 1986) (" 'independent contractor' is a term which is antithetical to the word 'servant', although not to the word 'agent' ") (quoting Restatement (Second) Agency section 14(N), Comment (a)). Thus, all agents who are not servants are "independent contractors." Moreover, all non-agents who contract to do work for another are also termed "independent contractors". For example, a person who contracts to build a swimming pool for another is the latter's independent contractor. There are, then, agent independent contractors and non-agent independent contractors.

Such distinctions matter because the scope of the employer's liability for the torts of its representatives depends almost exclusively on how the relationship is characterized. "If the principal is the master of an agent

who is his *servant*, the fault of the agent, if acting within the scope of his employment, will be imputed to the principal by reason of respondeat superior." *Baldasarre v. Butler*, 625 A.2d 458, 464 (N.J. 1993) (emphasis added) (quoting *JMB Enter. v. Atlantic Employers Ins.*, 550 A.2d 764, 767 (N.J. Super. Ct. App. Div. 1988)). On the other hand, "the principal [generally] is not vicariously liable for the torts of the *independent contractor* if the principal did not direct or participate in them." *Baldasarre*, 625 A.2d at 465 (emphasis added); *Sanders*, 484 A.2d at 1028-29 ("where the agent is not a servant, the principal is not liable for the agent's negligent conduct 'unless the act was done in the manner authorized or directed by the principal or the result was one authorized or intended by the principal.' ") (citations omitted); *Nazworth*, 486 So.2d at 638 ("The general rule . . . is that an owner, employer, or contractee will not be held liable for the torts of an independent contractor or of the latter's employees committed in the performance of the contracted work.") (citations omitted). As the New Jersey Supreme Court has explained, the independent contractor is " 'characterized by the attributes of self-employment and self-determination in the economic and professional sense' ". *Baldasarre*, 625 A.2d at 465 (quoting *Rokos v. State, Dep't of Treasury*, 564 A.2d 1217, 1220 (N.J. Super. Ct. App. Div. 1989)). Since the employer

> 'has no right of control over the manner in which the work is to be done, it is to be regarded as the contractor's own enterprise, and he, rather than the employer is the proper party to be charged with the responsibility for preventing the risk, and administering and distributing it.'

Baldasarre, 625 A.2d at 465 (quoting Prosser and Keeton on Torts, § 71).

The district court found that the sales representatives are independent contractors and therefore Winback could not be liable for their infringing acts. AT&T's arguments against this finding can be summed up as follows: (1) the district court erred by failing to categorize the sales representatives as employees or servants of Winback; (2) the district court failed to consider whether the representatives were agent independent contractors or non-agent independent contractors; (3) the district court failed to consider whether Winback had created an apparent master-servant relationship such that Winback should be held liable for the torts of its sales representatives; (4) Winback should be held liable at any rate. We will address these arguments in turn.

a. Servants or independent contractors

In reaching its conclusion that Winback's sales representatives are independent contractors, the district court relied almost exclusively on *Baldasarre*. In that case, the plaintiff had sought to hold a purchaser of land liable for his attorney's alleged misrepresentations. In denying relief, the Supreme Court of New Jersey reasoned:

> Attorneys generally are not subject to their clients' actual control or direction. Indeed, most clients have an attorney because they are unfamiliar with the law and want an attorney to guide them through the intricacies of that field. As professionals, attorneys are deemed responsible for their own acts, and, as in this case, most

> clients have legal recourse against the attorney and his law firm for their actions.

Baldasarre, 625 A.2d at 465, Therefore, the Court concluded that "[a]n innocent client should not be held vicariously liable for the wrongful conduct of his or her attorney against the attorney's other clients if the client does not direct, advise, consent to or participate in the attorney's improper conduct." *Id.* at 465. The district court in this case analogized as follows:

> [T]he level of joint activity between [Winback] and Inga and the sales representatives is similarly minimal and peripheral to the nuts and bolts of the business of marketing and promoting. Furthermore, as detailed above, no proof was submitted to the Court to establish that [Winback] or Inga advised, consented to or participated in the alleged misrepresentations. Accordingly, plaintiff has failed to establish sufficient proof that the sales representatives are any more than independent contractors.

851 F. Supp. at 626.

We hold that the district court correctly concluded that the sales representatives are independent contractors. The district court found that Winback employs no marketing employees on its own, and that the sales representatives "play an integral role in the success of [Winback], financially and otherwise, in that all sales are conducted through these agencies and individuals." 851 F. Supp. at 626. Nonetheless, the district court correctly recognized that Winback exercises minimal control over the manner in which the representatives perform their

work, and no control at all even over whether the representatives choose to market their company. Moreover, the representatives work for any number of companies at the same time, are paid purely based on the results they obtain, and operate their own businesses with their own expenses. The fact that Winback attempted to police the representatives to prevent misrepresentation does not change our result. "[A]n employer does not transform an independent contractor into a servant merely because he wishes to supervise the project as it transpires." *Brady v. Ralph Parsons Co.*, 520 A.2d 717, 731 (Md. 1987).

Therefore, the district court properly found that the sales representatives were independent contractors. However, the court erred by stopping at that point. The district court failed to determine whether the sales representatives were agent independent contractors or non-agent independent contractors.[17]

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[17] The district court's failure to address this question is understandable in light of *Baldasarre*, for the case does not set forth explicitly the distinctions on which it relies. A close reading of the case reveals, however, that the Supreme Court of New Jersey did not intend to eviscerate the distinction between agent independent contractors and non-agent independent contractors. For example, the Court quotes Prosser and Keeton on Torts for the proposition that an employer who hires an independent contractor:

> 'has no right of control over the manner in which the work is to be done, it is to be regarded as the contractor's own enterprise, and he, rather than the employer is the proper party to be charged with the responsibility for preventing the risk, and administering and distributing it.'

Baldasarre, 625 A.2d at 465 (quoting Prosser and Keeton on Torts, § 71). But Prosser and Keeton rely in turn on the Second

b. Agent independent contractors?

In this regard, we first must address the scope of the district court's findings. Although the district court

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Restatement of Agency for their liability proposition, and the authors recognize that there are agent independent contractors and non-agent independent contractors:

> Since an agent who is not a servant is not subject to any right of control by his employer over the details of his physical conduct, the responsibility ordinarily rests upon the agent alone, and the principal is not liable for the torts which he may commit. There are, however, a number of situations in which such liability may exist. These include cases in which a tort may be based upon the apparent authority of the agent to act for his principal, or in which a tort such as deceit occurs in the course of a consensual transaction between the agent and the injured person. Thus . . . a seller of land or goods may, in most states, be subject to an action of deceit for the fraud of his agent committed in the course of the sale.

Prosser and Keeton on Torts, § 70 at 508 (citing, among other authorities, numerous sections of the Restatement (Second) of Agency) (footnotes omitted). Prosser and Keeton again cite the Restatement (Second) of Agency's proposition that

> A principal is subject to liability for loss caused to another by the other's reliance upon a tortious representation of a servant *or other agent*, if the representation is:
>
> (a) authorized;
>
> (b) apparently authorized; or
>
> (c) within the power of the agent to make for the principal.

Second Restatement § 257 at 558 (cited in Prosser and Keeton, § 70, n.70.)

Moreover, to the extent that *Baldasarre* can be read to hold that independent contractors may never bind principals for

appeared to conclude that the representatives are non-*agent* independent contractors, a close reading of the decision reveals that the court actually found only that the representatives were non-*servant* independent contractors. For one thing, the court referred to "the distinctions between employees or agents and non-employees or independent contractors," implying that once a representative is termed an independent contractor it is by definition a non-agent. *Winback*, 851 F. Supp. at 626. Moreover, in determining that the representatives were independent contractors, the court used precisely the factors normally used to distinguish between servants and independent contractors: the principal's right of physical control, the place where the representatives work, the method of payment, the fact that the representatives had their own business enterprises. *See* Warren A. Seavey, Agency, § 84 at 142 (1964) (hereinafter "Seavey") ("the relation of master and servant is indicated by the fact that the employee is given a salary and is employed for a considerable period; that he is using an instrumentality of the principal on his premises; that the work is unskilled, usually supervised; that the one employed does not have a distinct business").

The district court's failure to make the additional finding is crucial, because while generally principals are

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their torts, that proposition was eviscerated the very next year by the same court. In *Sears Mortgage Corp.*, the Supreme Court of New Jersey held a title insurance company responsible for its attorney's fraud. The Court directly relied on agency principles. *Sears Mortgage Corp.*, 634 A.2d at 83-84. Since it can in no way be argued that the attorney was the title insurer's servant, the Court implicitly recognized the category of agent independent contractors.

not liable for the torts of their independent contractors, the common law is littered with exceptions:

> [T]here is a range of tortious conduct on the part of an agent that may bind the principal and subject him to liability even where the agent is not a servant, where the act was not done in the manner authorized or directed by the principal, and where the result was not authorized or intended by the principal.

Sanders v. Rowan, 484 A.2d at 1029. A principal is not generally liable for physical torts committed by its independent contractor-agent, but a principal *will be* held liable for the independent contractor-agent's misrepresentations "upon matters which the principal might reasonably expect would be the subject of representations, provided the other party has no notice that the representations are unauthorized." *Id.* at 1029 (quoting Restatement (Second) of Agency § 258); *see also Nagels v. Christy*, 330 S.W.2d 754, 757 (Mo. 1959) (principal liable for misrepresentations by independent contractor sales agent) (citing cases). As one commentator has written:

> Where an agent is authorized or apparently authorized to conduct a transaction, and the other party is unaware of any limitation upon the agent's authority, a problem similar to that of the limits of the scope of employment by a servant arises. The difficulties are best seen in the cases of selling agents. Their principals have been held liable for the unauthorized and untrue statements as to the capacity of the machine sold, the age of a second-hand automobile, the construction and material used in building a house, the income from property, the

> amount of taxes due upon it, the extent of coverage of insurance, the intent of the manufacturer not to disturb a distributorship awarded by it to the plaintiff.

Seavey, § 92 at 163. Although liability at common law generally was limited to actions by the purchaser for deceit, we see no reason why the doctrine should not be transplanted to the area of unfair competition. The basis for the common law exception is the injustice in allowing a principal to place agents in the marketplace, to allow the agents to complete contracts on the principal's behalf, to profit from the agents' misrepresentations, and then to disclaim liability for the agents' actions while benefitting from the fraud. The theory relies on the distinction between torts of misrepresentation that benefit the defendant, and torts such as negligently injuring a passerby while driving a car, from which the defendant does not profit at all. Moreover, as the New Jersey Supreme Court has noted, it is appropriate for courts to consider "awareness of the risk and the element of foreseeability of loss in their consideration of liability based on agency principles. *Sears Mortgage Corp.*, 634 A.2d at 83. Correctly characterized, then, the doctrine simply states a circumstance in which the principal justly is held responsible for the torts of its independent contractor-agent.

We hold, then, that when a principal authorizes its independent contractor agent to conduct and conclude a transaction with third parties on the principal's own behalf, and the principal benefits financially from the contracts, the principal will be liable in an action brought pursuant to section 43(a) of the Lanham Act based on the agents' *foreseeable* infringing actions upon which it would

be reasonable for the third party to rely, provided the third party has no notice that the representations are unauthorized.[18]

Of course, it would be unfair for a principal to be liable for all misrepresentations of its agent independent contractors. Thus, we include the requirements that the misrepresentations be foreseeable and that reliance be reasonable. In considering whether the infringing actions were foreseeable, the district court should consider all of the surrounding circumstances. For instance, if the principal went to great lengths to ensure that the agents knew not to make certain representations, such representations, if made, *may* be found to be unforeseeable. But if, at the same time, the principal gave the agents carte blanche to hold themselves out as the principal itself, then such infringing actions may become foreseeable, notwithstanding the principal's efforts at policing the agents. The point, of course, is to hold the principal liable when it is just to do so, but still to encourage the principal to police the agents enough so as to avoid liability. This is the type of balancing the district court must undertake in the first instance.

Professor Seavey's cautionary observations about reliance are also apt:

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[18] As noted above, the Restatement holds a principal liable for tortious representations that are authorized or apparently authorized. *See* n.17 *supra*. We believe that this terminology unnecessarily confuses the issues. Therefore, we employ Seavey's approach and the approach of the New Jersey Supreme Court in *Sears Mortgage Corp.* and use the concept of foreseeability. *See* Typescript at 31-34 (quoting Seavey).

> It is difficult to suggest a limitation upon the power of a selling agent to bind the principal if the statements are relevant to the transaction which the agent is authorized to conduct . . . A working rule would be the limitation of liability to statements concerning matters as to which the principal might think the agent, or any agent, might misrepresent in forwarding their joint interests. There must be limits. The seller of a New England farm should not be liable to a credulous buyer for tort damages if the agent were to represent that the land to be sold contained oil or gold.

Seavey, § 92 at 164.

Because the district court failed to address whether the representatives were agents or non-agents, and therefore failed to consider these questions, we must remand the case for further fact findings and renewed application of the law to the facts. Upon remand, then, the district court first must determine whether the sales representatives were agent independent contractors or non-agent independent contractors. The Restatement defines a non-agent independent contractor as follows:

> A person who contracts to accomplish something for another or to deliver something to another, but who is not acting as a fiduciary for the other is a non-agent contractor. He may be anyone who has made a contract and who is not an agent. The term is used colloquially to describe builders and others who have contracted to accomplish physical results not under the supervision of the one who has employed them to produce the results.

Restatement (Second) Agency § 14N, Comment (b). Thus, the district court should assess whether the representatives are analogized better to a firm that contracts to perform a particular, discrete task, such as to build a swimming pool, or to a party who is empowered to speak for another and bind the other in contracts. In making this determination, the facts analyzed by the district court and adduced at the hearing are certainly relevant. While the district court should focus on the level of control exercisable by Winback over the manner in which the sales representatives market its product, it should not emphasize physical control (as it properly did in considering whether the representatives were servants). Inga's testimony that he attempts to police the representatives is certainly relevant to this inquiry, particularly if Winback authorizes the agents to represent themselves as Winback.[19] If the district court finds that the sales representatives are agents, it then must proceed to determine whether they committed infringing acts and whether, under the test we detailed above, Winback and Inga may be held liable. If the district court determines that the representatives are non-agent independent contractors, it

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[19] It could be argued that our decision encourages parties like Winback to exercise as little control as possible over their representatives. We see little danger of that, though. For one thing, we cannot conceive that in a situation where the representative is empowered to speak as the principal, where the representative has the power to conduct and conclude transactions, and where the principal inevitably will exercise control over how its company is represented to third parties, a non-agency relationship will be found. Moreover, once an agency is created, the principal may attempt to avoid liability by acting in a manner that makes misrepresentations unforeseeable.

still must consider whether they were acting with apparent authority to make the representations.

c. Apparent authority

The district court did not consider whether the sales agents were acting with apparent authority, or as apparent servants. The district court discounted AT&T's arguments because it believed that the doctrine of apparent authority only comes into play when an actual agency relationship is established. *Winback*, 851 F. Supp. at 629. The district court's premise was incorrect. "Apparent authority arises in those situations where the principal causes person with whom the agent deals to reasonably believe that the agent has authority" despite the absence of an actual agency relationship. *Barticheck v. Fidelity Union Bank/First Nat'l State*, 680 F. Supp. 144, 148-49 (D.N.J. 1988) (applying New Jersey law). As the Court of Appeals for the Sixth Circuit has explained:

> If the principal is responsible for the third person believing that the person with whom she deals is an agent, or if the principal should realize that his conduct is likely to induce such belief, then there is an agency created by apparent authority and the principal will be held responsible for the torts of his agent.

Roberts v. Montgomery Ward and Co., Inc., No. 83-1115, 729 F.2d 1462 at *3 (6th Cir. Feb. 24, 1984). In short, apparent authority may be a way of *creating* an agency relationship. Under the doctrine, liability is imposed "not as the result of the reality of a contractual relationship but rather because of the actions of a principal or an

employer in somehow misleading the public into believing that the relationship or the authority exists." *Arthur v. St. Peters Hosp.*, 405 A.2d 443, 446 (N.J. Super. Ct. Law Div. 1979). Thus, while "[the] doctrine generally presupposes the existence of a principal-agent relationship . . . it is not necessary to the application of the doctrine." *Shadel v. Shell Oil Co.*, 478 A.2d 1262, 1264 (N.J. Super. Ct. Law Div. 1984); *see also Sears Mortgage Corp.*, 634 A.2d at 79 ("[e]ven if a person is not an 'actual agent,' he or she may be an agent by virtue of apparent authority based on manifestations of that authority by the principal.") (citing *C.B. Snyder Realty Co. v. National Newark Banking Co.*, 101 A.2d 544, 548 (N.J. 1953)).

The fact, then, that Winback's sales representatives actually may have been non-agent independent contractors does not dispose of the question. Rather, "[a]ny inter se arrangement between [Winback and its sales representatives] establishing a relationship other than that of principal and agent is unimportant in determining the existence of apparent authority. The crucial question is what representations were made to the third party. . . . " *Amritt v. Paragon Homes, Inc.*, 474 F.2d 1251, 1252 (3d Cir. 1973) (applying Virgin Islands law). Thus, although "when dealing with an independent contractor, no [master/servant] relationship exists, . . . this relationship is not necessary to the application of the doctrine." *Arthur*, 405 A.2d at 446.

Under the doctrine of apparent authority, the district court should have looked to the principal's actions and the third parties' reasonable beliefs. AT&T contends that Winback authorized its sales agents to conduct transactions as though they were Winback. If this is true, then

the district court may find that Winback held its representatives out to the public as its servants or as itself, and that the third parties reasonably relied on that relationship in deciding to enter into contracts, and, therefore, that the misrepresentations were authorized by Winback. In other words, Winback may have created an agency under the theory of apparent authority, and Winback may be liable for the misrepresentations. Because the district court made no findings in this regard, we must remand the case for additional fact-finding.[20]

d. AT&T's final secondary liability argument

Finally, AT&T appears to argue that Winback should be liable as a matter of law for the torts of its sales representatives, regardless of whether they are agents

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[20] When a plaintiff relies on apparent authority, it also must establish that the third party relied on the agency relationship in making its purchasing decision. *Sears Mortgage Corp.*, 634 A.2d at 82. In this regard, Winback argues that the representatives held themselves out as AT&T and not as Winback. The district court held that "[t]he proofs before the Curt are extremely unclear as to whether or not the sale representatives hold themselves out to be [Winback] in making the solicitations or whether or not [Winback] knowingly permits its name to be used in the course of solicitations without qualification from the representatives that they are independent marketing agencies engaged to sell and promote the Winback program on behalf of [Winback]." *Winback*, 851 F. Supp. at 628 n.5. Because these questions are crucial in this case – in order to determine not only reliance, but also the extent to which the principal held the representatives out to the public as its alter ego – the district court may wish to hear additional evidence upon remand.

and regardless of whether they acted with apparent authority. AT&T continually refers in its brief to the inequities of the district court's decision. But the law it cites to support this broad theory of secondary liability exists in copyright cases.[21] The Court of Appeals for the

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[21] Along with citing the copyright cases, AT&T points to the Seventh Circuit Court of Appeals' decision in *First Nat'l Bank of Cicero v. Lewco Sec. Corp.*, 860 F.2d 1407 (7th Cir. 1988). AT&T argues in its brief:

> "As one Court said,
>
> Where the principal cannot embrace a transaction except through the acts of an unsupervised agent, *the principal must accept the consequences of the agent's misconduct because it was the principal who allowed the agent to operate without accountability.*
>
> Courts have found an agent to be a sole actor for his principal when 'the whole procedure . . . was entrusted by [the principal] to the initiation and execution of the agent . . . ' "

AT&T brief at 30 (quoting *Cicero*, 860 F.2d at 1417-18). AT&T continues: "Yet that is exactly what Winback has done here. Indeed, it is difficult to imagine a situation where a representative shoulders responsibility more completely for the promotional marketing of its principal than a Winback representative, for Winback's agents are entrusted with the *entire* marketing responsibility for Winback." AT&T brief at 30. AT&T fails to mention that the court's holding was predicated on a finding that the agent was an adverse agent. *See Cicero*, 860 F.2d at 1417 ("Where an adverse agent is also the sole representative of the principal in the transaction in question, the principal may . . . be charged with the agent's knowledge.") (citing 3 W. Fletcher, Corporation § 827 at 153-62 (1975)). The court explained that "[t]he adverse agent exception . . . comes into play where the agent's interests are shown to be adverse to those of his principal." *Id.* AT&T does not even attempt to argue that Winback's representatives were adverse agents; therefore, AT&T's reliance on *Cicero* is misplaced.

Seventh Circuit has summed up the law in these cases as follows:

> [A] defendant is vicariously liable for copyright infringement if it has 'the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.' *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971); *F.E.L. Publications, Ltd. v. National Conf. of Catholic Bishops*, 466 F. Supp. 1034, 1040 (N.D. Ill. 1978); *see also Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354, 355 (7th Cir. 1929) (owner of dance hall liable for copyright violations by band hired to entertain paying customers); *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Ass'n*, 554 F.2d 1213, 1215 (1st Cir. 1977) (owner of racetrack liable for copyright violations by company hired to supply music over public address system). The purpose of the doctrine is to prevent an entity that profits from infringement from hiding behind undercapitalized 'dummy' operations when the copyright owner eventually sues. *Shapiro, Bernstein*, 316 F.2d at 309.

Hard Rock Cafe, 955 F.2d at 1150. AT&T's theory would go well beyond agency theory, for it would not rely on situations where the agent is acting on behalf of the principal or as the principal's alter ego. AT&T's argument – which attempts to have secondary liability under the Lanham Act parallel secondary liability under the copyright laws – is remarkable in light of the fact that the Supreme Court has rejected precisely this argument. The Court explicitly has held that secondary liability for trademark infringement must be drawn more narrowly

than secondary liability for copyright infringement. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19, 104 S.Ct. 774, 787 n.19 (1984). The Court made that statement while observing the " 'fundamental differences between copyright law and trademark law.' " *Id.* (internal quotation and citations omitted). To adopt AT&T's argument would entail ignoring the Supreme Court's warning, and would require us to base secondary liability on a theory that goes beyond any common law doctrine of vicarious liability.[22] We decline to do so.

5. Likelihood of confusion

The district court, in addition to holding that Winback could not be held liable for the acts of its sales agents,

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[22] AT&T also argues that Winback should be held liable under the "joint tortfeasor" test enunciated in *Hard Rock Cafe*. In that case, the Court of appeals for the Seventh Circuit held that a party may be held liable for the tortious acts of another when "the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product." 955 F.2d at 1150. AT&T's argument is meritless. The essence of joint tortfeasor liability is fault – "[j]oint tortfeasors are all persons who act in concert to commit a tort, pursuant to a common purpose." McCarthy on Trademarks, § 25.03[1] at 25-35. Winback and its representatives did not act pursuant to a common plan to commit the tortious act, and Winback did not actively take part in the tort, or induce or encourage the tort. *Id.* Moreover, Winback and its representatives clearly: (1) are not partners, (2) do not have the authority to bind *each other*, and (3) do not exercise joint control over Winback's product.

stated that "[t]he Court need not rest solely on its determination that the sales representatives are independent contractors in denying plaintiff's application." *Winback*, 851 F. Supp. at 630. Rather, while "plaintiff submitted sufficient proofs to the Court to establish that consumers have been confused by certain oral misrepresentations made by and written documents provided by the Winback sales representatives," nonetheless, "the proofs also establish that the cause of such confusion is not solely attributable to the sales representatives." *Id.* AT&T argues that the district court ignored unassailable evidence that customers were likely to be confused by the representations. Winback, relying on a recent case we decided, contends that the test is not "likelihood of confusion" but "actual confusion." Since, according to Winback, AT&T submitted insufficient statistical proofs of actual confusion, Winback contends that the district court's judgment should be affirmed on this alternative ground.

While both parties argue about whether the district court's finding was clearly erroneous, it appears that the district court actually made no such finding. The court states in its Opinion:

> The Court does not intend to suggest, however, that either the nature of the product or the arguably unwise decision of the AT&T marketing department would justify acts of infringement by [Winback] or those who market the [Winback] product. Indeed, *the Court makes no determination as to the primary cause of the actual confusion* which was proven to exist. The Court only raises these issues to support its conclusion that the issuance of a preliminary injunction in this matter, which would require a finding of

> likelihood of confusion, would be improper given that certain decisions by the plaintiff played at lease [sic] some substantive role in the creation of the confusion.

Id. at 631 (emphasis added). Thus, the court actually refrained from finding for Winback on the likelihood of confusion test alone. Rather, it simply held that AT&T's contribution to the confusion supported the already-made decision that it was not entitled to injunctive relief.[23] Since the court did not make any express finding in this regard, we will decline to weigh the evidence in the first instance. Rather, upon remand, if the district court reaches this issue, it should make the appropriate findings.

Still, Winback argues that we should adopt the "actual confusion" standard we apply in claims of false advertising and that we should hold as a matter of law that AT&T's evidence does not satisfy the test. In a claim of trademark infringement under the Lanham Act, "[p]roof of actual confusion is not necessary; likelihood of confusion is all that need be shown.' " *Fisons Horticulture, Inc. v. Vigoro Indus., Inc.*, 30 F.3d 466, 472 (3d Cir. 1994) (quoting *Ford Motor Co. v. Summit Motor Prods., Inc.*, 930

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[23] Our reading of the Opinion is further corroborated by the fact that the court cited no case law in its discussion of likelihood of confusion and the fact that in another place in the Opinion, the court held that "[t]here is no question that [AT&T] submitted sufficient proofs to the Court to establish that consumers have been confused *by certain oral misrepresentations made by and written documents provided by the Winback sales representatives.*" 851 F. Supp. at 630 (emphasis added). *See* typescript at 9.

F.2d 277, 292 (3d Cir.), *cert. denied*, ___ U.S. ___, 112 S.Ct. 373 (1991)). In considering whether a plaintiff has demonstrated likelihood of confusion, district courts generally are to consider the following factors:

> (1) the degree of similarity between the plaintiff's mark and the alleged infringing mark;
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> (2) the strength of the plaintiff's mark;
>
> (3) the price of the goods and other factors indicative of the care and attention expected of customers when making a purchase;
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> (4) the length of time the defendant has used the mark without evidence of actual confusion;
>
> (5) the intent of the defendant in adopting the mark;
>
> (6) the evidence of actual confusion;
>
> (7) the extent to which the targets of the parties' sales efforts are the same.

Resorts Int'l, Inc. v. Greate Bay Hotel and Casino, 830 F. Supp. 826, 835 (D.N.J. 1992); *American Home Prods. v. Barr Lab.*, 656 F. Supp. at 1068. Of course, when the claim involves allegations beyond use of a similar mark, the test should be broadened accordingly. *Sun-Fun Prods., Inc. v. Suntan Research and Dev., Inc.*, 656 F.2d 186, 192 (5th Cir. 1981).

We apply a different test for claims of false advertising pursuant to 15 U.S.C. § 1125(a)(1)(B). A party seeking relief under this section of the Lanham Act

> bears the burden of proving actual deception by a preponderance of the evidence. . . . [I]t cannot

> obtain relief by arguing how consumers *could* react; it must show how consumers *actually* do react.

Sandoz Pharmaceuticals Corp. v. Richardson-Vicks, Inc., 902 F.2d 222, 228-29 (3d Cir. 1990); *see also Johnson & Johnson-Merck v. Rhone-Poulenc Rorer*, 19 F.3d at 130.[24] Thus, the plaintiff must adduce evidence that "the public was actually misled or confused by it." *Fisons Horticulture, Inc.*, 30 F.3d at 472 n.8 (citing *Johnson & Johnson-Merck*, 19 F.3d at 129-30; *Sandoz Pharmaceuticals Corp.*, 902 F.3d at 228-29. "[T]he success of the claim usually turns on the persuasiveness of a consumer survey." *Johnson & Johnson-Merck*, 19 F.3d at 129-30 (citation omitted). In *Johnson & Johnson-Merck*, we held that a survey demonstrating that 7.5% of consumers were deceived was insufficient to satisfy plaintiff's burden that the advertising "tends to deceive or mislead 'a substantial portion of the intended audience.' " *Id.* at 133-34 (quoting *U.S. Healthcare, Inc. v. Blue Cross of Greater Philadelphia*, 898 F.2d 914, 922 (3d Cir.), *cert. denied*, 498 U.S. 816, 111 S.Ct. 58 (1990)). If that test were applied to this case, unless the district court found that the defendants' representations were actually false, AT&T would be unable to meet the standard. Thus, the question is whether AT&T's claims against Winback and Inga are analogous enough to a claim of false advertising to warrant the same test.

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[24] If the plaintiff proves that the advertising is literally false, and not just misleading, then it need not prove actual deception.

AT&T's claims against the defendants can be divided into two categories: (1) Winback's representatives brazenly and falsely represented Winback to be, or to be a division of, AT&T; (2) Winback's representatives engaged in misleading representations such as designating itself as the Winback and Conserve Program rather than the Winback and Conserve Program, Inc., that misled customers into believing that Winback was affiliated with AT&T. In some sense, AT&T's claims are analogous to claims of false advertising. *See, e.g.*, 3 McCarthy, § 27.08[1](c) at 27-90 ("A variation on the false advertising prong of § 43(a) is presented in cases finding a violation in the false representation that a product is created, designed, or authorized by plaintiff.") (collecting cases). The similarity stems from the fact that advertising is a subset of marketing, and AT&T takes issue with Winback's methods of marketing.

But all claims of unfair competition, including claims of trademark infringement, are to some degree related to claims of false advertising. They all involve allegations that the public was misled into purchasing a particular entity's product. But a Lanham Act claim of false advertising is different because in the usual such case, a plaintiff is claiming to be injured because of false representations by the defendant about the strength or quality of the defendant's own product. Thus, the plaintiff essentially is claiming relief based on an indirect injury. In a false designation of origin claim, however, the plaintiff claims relief because of false representations made by the defendant about the plaintiff's product. Thus, we previously have held that "[l]ikelihood of confusion is . . . the test for actions brought under section

43(a) of the Lanham Act. 15 U.S.C. § 1125(a)(1)(A) for unfair competition to prevent false representations as to the source or origin of goods or services by a mark confusingly similar to one already in use." *Fisons Horticulture, Inc.*, 30 F. 3d at 473 (citing *Sun-Fun Prods., Inc. v. Suntan Research & Dev. Inc.*, 656 F.2d at 192). We now adopt that test not only for false designation of origin claims that allege use of a confusingly similar mark, but also more general false designation of origin claims. *See Universal Money Centers, Inc. v. AT&T*, 22 F.3d 1527, 1529-30 (10th Cir. 1994) (test for false designation of origin claim is likelihood of confusion) (citing *Jordache Enters., Inc. v. Hogg Wyld, Ltd.*, 828 F.2d 1482, 1484 (10th Cir. 1987)) (*petition for cert. filed* Sept. 8, 1994); *Smith Fiberglass Prods., Inc. v. Ameron, Inc.*, 7 F.3d 1327, 1329 (7th Cir. 1993) (test for false designation of origin and palming off claim is "likelihood of consumers in the relevant market confusing the infringer's mark with that of the complainant"). *Cf. Conopco, Inc. v. May Dep't Stores Co.*, No. 92-1412, 1994 WL 511280 at *7 (Fed. Cir. Sept. 21, 1994) (noting, in different context, distinction between false advertising claim and false designation of origin claim). Therefore, we reject Winback's argument and decline to affirm the district court's Order on this alternative ground.

III. CONCLUSION

For all the reasons detailed above, we will vacate the district court's denial of AT&T's application for a preliminary injunction and we will remand the matter to the

district court for further proceedings consistent with this Opinion.

A True Copy:

Teste:

Clerk of the United States Court of Appeals
for the Third Circuit

FCC 94-359

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In the Matter of	)
AT&T Communications	)
	)
Apparent Liability for Forfeiture and Order to Show Cause	)

NOTICE OF APPARENT LIABILITY FOR FORFEITURE AND ORDER TO SHOW CAUSE

Adopted: December 30, 1994;
Released: January 4, 1995

By the Commission: Commissioner Quello concurring in part and dissenting in part.

I. INTRODUCTION

1. By this Notice of Apparent Liability for Forfeiture (NAL), we initiate enforcement action against AT&T Communications (AT&T). For the reasons we discuss below, we find that AT&T apparently violated Section 201(a) of the Communications Act of 1934, as amended ("Act"), 47 U.S.C. § 201(a), by failing to provide communications service under Contract Tariff F.C.C. No. 383 after receiving orders for this service from Tel-Save, Inc. (Tel-Save), Public Service Enterprises, Inc. (PSE), and GE Communications Systems, Inc. (GECCS). Based on our review of the facts and circumstances surrounding this violation, we find that AT&T is apparently liable for a forfeiture in the amount of $1,000,000. We also order

AT&T to show cause why it should not be ordered to provide service to these parties under Contract Tariff No. 383.

2. Section 201(a) of the Act requires common carriers to furnish communication service upon reasonable request.[1] As an interstate common carrier, AT&T is bound by these and other provisions in Title II of the Act. PSE, Tel-Save and GECCS resell interstate telecommunication services provided to them by AT&T and thus are also common carriers.[2] The Commission has a long-standing requirement that all common carriers must permit unlimited resale of their services. The Commission has found that unlimited resale promotes the public interest by creating competitive pressures on carriers to provide service at rates near the cost of service and by stimulating demand for such service.[3] Because of these benefits from

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[1] Section 201(a) of the Act, 47 U.S.C. § 201(a). Section 201(a) of the Act states that "[i]t shall be the duty of every common carrier engaged in interstate . . . communication by wire or radio to furnish such communications service upon reasonable request therefore. . . . ".

[2] *See* Regulatory Policies Concerning Resale and Shared Use of Common Carrier Services and Facilities, 60 F.C.C. 2d 261 (1976) (*Resale and Shared Use Order*) amended on recon., 62 F.C.C. 2d 588 (1977) aff'd sub nom. American Telephone and Telegraph Co. v. FCC, 572 F.2d 17 (2d Cir.), cert. den. 99 S.Ct. 213 (1978). Resale is "an activity wherein one entity subscribes to the communications services and facilities of another entity and then reoffers communications service and facilities to the public (with or without 'adding value') for profit." *Id.* at 271. The resale of communications service is a common carrier activity and entities engaging in resale are fully subject to the provisions of Title II of the Communications Act. *Id.* at 321.

[3] *Id.* at 283, 298-99.

resale of communications services, the Commission has rejected restrictions on resale as unjust and unreasonable under Section 201(b), and has concluded that resale and sharing serves as a vehicle for efficient enforcement of Section 202(a) of the Act.[4]

3. In the *Interexchange Competition Order*,[5] the Commission permitted AT&T to offer contract-based rates, concluding that such offerings were consistent with Sections 202 and 203 of the Act. The Commission determined that contract tariffs are presumed lawful and are accorded streamlined review, taking effect after 14 days' notice. In considering the potential adverse effects of contract carriage on resellers, the Commission concluded that it was "not reasonable to assume that AT&T will refuse to present them [resellers] with viable service options at reasonable rates. In any event, . . . , the terms of AT&T's contracts must be filed with the Commission and made available to all similarly situated customers, including resellers."[6] In this order, we address a situation in which AT&T has apparently refused to provide service under a contract tariff despite requests for this service from the resellers named above, in violation of Section 201(a) of the Act.

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[4] *Id.* at 283.

[5] Competition in the Interstate Interexchange Marketplace, CC Docket No. 90-132, 6 FCC Rcd 5880 (*Interexchange Competition Order*), *reconsidered in part*, 6 FCC Rcd 7569 (1991), *further recon.*, 7 FCC Rcd 2677 (1992).

[6] *Id.* at 5901.

II. BACKGROUND

4. On August 9, 1993, AT&T filed Contract Tariff No. 383 with the Common Carrier Bureau. The tariff took effect on August 23, 1993. Tel-Save and PSE requested service under the contract tariff on August 24 and September 14, respectively. GECCS requested service no long thereafter.[7] These three customers thus sought service under Contract Tariff 383 as originally filed, with the same terms and conditions that were in effect when they first requested the service. No service under Contract Tariff 383 has been delivered to these resellers from the time that this contract tariff was introduced.

5. On September 9, 1993, after receiving the order for service from Tel-Save, AT&T filed a tariff transmittal that would have changed material terms and conditions of Contract Tariff 383.[8] By this transmittal, AT&T proposed to amend the application of certain usage credits provided under Contract Tariff 383. As originally filed, Sections 6.B.3 and 6.B.4 of Contract Tariff 383 stated:

> 3. AT&T will apply a quarterly usage credit, in an amount equal to 10% of the total of the qualifying usage charges in the previous quarter . . . To be eligible to receive this credit, the Customer must have at least $90,000 in . . . quarterly usage billing. The customer must satisfy all monitoring conditions . . . or will be liable for repayment of this credit.

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[7] *See* Letter from Robert Reisner, GECCS, to Richard Higginson, Eastern Region Manager, Specialized Markets Division, AT&T (dated September 17, 1993).

[8] *See* AT&T Contract Tariff Transmittal No. 632, filed September 9, 1993.

> 4. AT&T will apply a quarterly usage credit, in an amount equal to 15% of the total qualifying usage charges in the previous quarter . . . to be eligible to receive this credit, the Customer must have at least $195,000 in . . . quarterly usage billing. The customer must satisfy all monitoring conditions specified . . . or will be liable for repayment of this credit.

Thus, under the plain language of the tariff as originally filed, a customer could qualify for both usage discounts. Even if the language were found to be ambiguous, however, it is well-established that such uncertainties in tariff provisions are interpreted in the customer's favor.[9]

AT&T proposed in the September 9 tariff transmittal to amend Sections 6.B.3 and 6.B.4 to state:

> 3. AT&T will apply a quarterly usage credit, in an amount equal to 10% of the total of the qualifying usage charges in the previous quarter . . . To be eligible to receive this credit, the Customer must have at least $90,000 . . .

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[9] American Satellite Corporation v. MCI Telecommunications Corporation, 57 F.C.C. 2d 1165, 1167 (1976), *citing* United States v. Gulf Refining Co., 268 U.S. 542, 45 S.Ct. 597, 69 L.Ed. 1082 (1925) ("It is well settled that where there is an ambiguity, uncertainty, or reasonable doubt as to which of two constructions should prevail in a tariff schedule, the ambiguity should be resolved against the maker of the tariff and in favor of the customer."); *see also* 13 C.J.S., Carriers § 303, p. 706 13 Am. Jur., Carriers § 116, p. 655 (carriers establishing tariff schedules for interstate commerce are not entitled to have those schedules liberally construed in their own favor.)

> quarterly usage billing. *This credit cannot be combined with the credit in 6.B.4., following.* The customer must satisfy all monitoring conditions . . . or will be liable for repayment of this credit.
>
> 4. AT&T will apply a quarterly usage credit, in an amount equal to 15% of the total qualifying usage charges in the previous quarter . . . To be eligible to receive this credit, the Customer must have at least $195,000 in . . . quarterly usage billing. *This credit cannot be combined with the credit in 6.B.3., preceding.* The customer must satisfy all monitoring conditions specified . . . or will be liable for repayment of this credit.

(emphasis added).

6. On September 13, 1993, prior to the date on which the proposed changes to Contract Tariff 383 would have taken effect,[10] AT&T sent a letter to Tel-Save accepting its request for Contract Tariff 383. In its letter, AT&T also notified Tel-Save of the pending "clarifications" that were on file with the Commission. Finally, AT&T attached a Contract Tariff Order Form, which it claimed was "necessary to execute the agreement" between AT&T and Tel-Save.[11] This document, however, had previously been

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[10] The revisions in Contract Tariff Transmittal 632 were filed to take effect on September 23, 1993 on 14 days notice.

[11] *See* Letter from Richard Higginson, Eastern Region Manager, Specialized Markets Division, AT&T, to Daniel Borislow, President, Tel-Save (dated September 13, 1993). A copy of AT&T's letter accepting Tel-Save's request for service under Contract Tariff 383 is attached to the Tel-Save petition to reject, or to suspend and investigate, AT&T Contract Tariff Transmittal No. 632, which was filed with the Commission on September 15, 1993. AT&T similarly acknowledged GECCS' request for service

completed and forwarded to AT&T by Tel-Save as part of its initial request on August 24.[12]

7. On September 15, 1993, Tel-Save and GECCS filed petitions to reject or suspend and investigate the amendments contained in the September 9 tariff transmittal. On the same date, PSE filed a petition to reject the transmittal. The parties claimed AT&T was attempting to alter material terms of Contract Tariff 383 by means of the proposed amendments. They also claimed that their orders for Contract Tariff 383 had been received by AT&T prior to the proposed effective date of those contract amendments. Thus, these petitioners argued, AT&T should have sought their approval of any changes to the contract terms rather than attempting to change unilaterally the terms of the contract tariff. At the direction of the Common Carrier Bureau, the effective date of the revisions to Contract Tariff 383 contained in the tariff transmittal was deferred until December 8, 1993 in order to evaluate the issues raised by petitioners.

8. On November 16, 1993, AT&T filed an amendment to the tariff to "grandfather" parties ordering service under Contract Tariff 383. This amendment provided

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by letter on September 13, 1993, and PSE's request for service by letter on September 29, 1993.

[12] *See* Letter from Daniel Borislow, President, Tel-Save to Richard Higginson, Eastern Region Manager, Specialized Markets Division, AT&T (dated August 24, 1993). With its letter, Tel-Save attached a completed AT&T Contract Tariff Order Form. In its letter, Tel-Save states that it filled out the order form for Contract Tariff 383 in exactly the same way as it previously had filled out the same form when it ordered service under AT&T's Contract Tariff 190.

that "customers who have ordered this Contract Tariff [Contract Tariff 383] by November 16, 1993" were not subject to the amendments contained in the September 9 transmittal, but were still bound by the terms of the contract service offering as filed on August 9, 1993. Thus, the new tariff amendment allowed the petitioners to take service under Contract Tariff 383 pursuant to the terms and conditions that were in effect when AT&T accepted their requests for service. GECCS, PSE and Tel-Save withdrew their petitions against the tariff transmittal in light of AT&T's amendment.[13] Because of these developments, the Bureau granted AT&T's request to advance the effective date of the amendments to Contract Tariff 383 from December 8, 1993 to November 16, 1993.[14]

9. As of December 1, 1994, AT&T has not furnished communications service under Contract Tariff 383 to Tel-Save, PSE and GECCS despite AT&T'S acknowledgement of their requests for service.[15]

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[13] *See* Letters to the Secretary, Federal Communications Commission (November 16, 1993.)

[14] *See* AT&T Contract Tariff Transmittal No. 952, filed November 16, 1993, revising material in Contract Tariff 383 which was originally filed under Contract Tariff Transmittal 632. As discussed above at note 7, Contract Tariff Transmittal 632 proposed to amend language pertaining to certain usage credits. By Contract Tariff Transmittal 952, AT&T also sought to advance the effective date of the material filed in Contract Tariff Transmittal 632 from December 8, 1993 to November 16, 1993.

[15] Tel-Save terminated its request for Contract Tariff No. 383 in late June, 1994 as part of a larger settlement agreement with AT&T. This was more than ten months after it ordered service, and more than nine months after AT&T accepted Tel-Save's order. Like PSE and GECCS, Tel-Save never received service under Contract Tariff 383.

III. DISCUSSION

10. We find that AT&T has apparently violated Section 201(a) of the Act by failing to furnish communications service pursuant to Contract Tariff 383 to Tel-Save, PSE and GECCS. Tel-Save, PSE and GECCS requested service under Contract Tariff 383. Nevertheless, no service has been provided to them under Contract Tariff 383, nor has AT&T provided to them a satisfactory reason for its delay in providing this service. Under the circumstances we have described here, AT&T's failure to provide the requested communications service constitutes an apparent breach of its common carrier obligation to provide a tariffed service upon reasonable request as set forth in Section 201(a) of the Act.

11. The Commission has routinely required common carriers to meet their Section 201(a) obligations to furnish communications service when so requested. In imposing a forfeiture for a violation of Section 201(a), the Commission has stated:

> we expect that carriers who are requested to provide service should make all efforts to do so, such as providing them under protest pending the resolution of complaints, petitions, or litigation, rather than refusing to meet a questionable obligation until after the complaint or litigation is resolved. Those who choose the course of non-compliance are on notice that they will be acting at their own peril, should the question of

> the legitimacy of their refusal to meet the common carrier obligations be decided against them.[16]

This admonition is particularly relevant when an important Commission policy (our resale requirements) is thwarted by a carrier's refusal to provide service.

12. We have concluded that AT&T's failure to provide service under Contract Tariff 383 to these resellers is an apparent violation of Section 201(a) of the Communications Act. AT&T's actions are of significant concern to us because they appear to be an intentional attempt to vitiate the goals of the Commission's resale policy. In the *Resale and Shared Use Order,* we determined that unlimited resale of communications services in a competitive environment is just and reasonable, and that tariff provisions preventing or restricting such practices are unjust and unreasonable and thus unlawful under Section 201(b) of the Communications Act. The Commission found that numerous public benefits would flow from unlimited resale and sharing activity, which in part "entails elimination of underlying carrier tariff restrictions on resale and

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[16] In the Matter of Hawaiian Telephone Company, 78 F.C.C. 2d 1062, 1065 (1980); *see also* Cable News Network, Inc., et. al., 78 F.C.C. 2d 1200A, 1204 (1980) (Carrier liable for forfeiture for failing to provide circuits pursuant to order of the Chief, Common Carrier Bureau in violation of Section 201(a): " . . . a carrier is obligated to take reasonable steps to meet a demand for service . . . "); Ward v. Northern Ohio Telephone Company, 300 F.2d 816 (6th Cir. 1962), cert. den. 371 U.S. 820 (1962) (Carrier liable for damages to radio station operator when it stopped providing telephone liens to carry radio broadcasts from the source of the broadcast to the transmitter).

sharing."[17] Chief among the public benefits from unlimited resale is the incentive provided to carriers to offer services at rates that more closely reflect the underlying cost of providing the service. If a carrier's communications services and facilities can be resold, it is more likely to price them closer to costs.[18] Further, because unrestricted resale and sharing of communications services will increase the number of parties offering the same types of services, undue discrimination in the marketplace is less likely to occur. Thus, the resale mechanism furthers the objectives of Sections 201(b) and 202(a) of the Act.[19]

13. Actions taken by a carrier that effectively obstruct the Commission's resale requirements are inherently suspect. AT&T's failure to provide service under Contract Tariff 383 to resellers in response to their orders, and its attempts to use the tariff process to alter material terms of the service to the detriment of resellers after AT&T had received service orders, leads us to conclude that AT&T has apparently sought to evade the Commission's resale policy. The three resellers identified above

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[17] *Resale and Shared Use Order*, 60 F.C.C. 2d at 298.

[18] *Resale and Shared use Order*, 60 F.C.C. 2d at 299. *See also* Report and Order and Second Further Notice of Proposed Rulemaking, 4 FCC Rcd 2873 (1989) (*AT&T Price Cap Order*); *modified on recon.*, 6 FCC Rcd 665 (1990); Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, 5 FCC Rcd 6786 (1990) (*LEC Price Cap Order*), Erratum, 5 FCC Rcd 7664 (Com. Car. Bur. 1990), *modified on recon.*, 6 FCC Rcd 2637 (1991), *aff'd*, National Rural Telecom Ass'n v. FCC, 988 F.2d 174 (D.C. Cir. 1993).

[19] *Resale and Shared Use Order*, 60 F.C.C. 2d at 298-99.

relied on the general availability of Contract Tariff 383 by ordering service within days of the tariff's effective date. After acknowledging the resellers' orders for service, however, AT&T attempted to change the discounts that were available under the terms of the contract tariff. AT&T's actions in attempting to amend material terms of the contract tariff after Tel-Save's order had been submitted appear to support an inference that AT&T intentionally sought to prevent these resellers from obtaining the full benefits of the contract tariff that were originally offered. Additional evidence of such apparent intent can be found in AT&T's lengthy inaction in response to the parties' timely request for service. Further, despite its receipt of Tel-Save's request for service, AT&T's cover letter accompanying the proposed amendments stated only that the "existing Customer for the Contract Tariff is aware of and has agreed to this change." Although only one entity had been receiving service under Contract Tariff 383, more than one party had expressed interest in receiving service under the existing terms of the contract tariff when AT&T proposed to amend the tariff. By its letter, however, AT&T implied to the Bureau that the only party desiring service under Contract Tariff 383 had agreed to the amendments AT&T proposed.

14. Most importantly, however, AT&T still has not actually provided service to these resellers under Contract Tariff 383. The failure to provide service serves as the basis for our finding of an apparent violation of Section 201(a). The evidence of AT&T's apparent intent to evade the Commission's resale requirements further buttresses the essential finding of an apparent statutory violation warranting a proposed forfeiture.

15. Our authority to assess forfeitures for the apparent violations of Section 201 of the Act and related Commission rules, regulations, and orders is governed by Section 503 of the Act.[20] The forfeiture ceiling per day for a continuing violation set forth in Section 503 is $100,000 for common carriers, with an overall limit of $1,000,000 for continuing violations involving a single act or failure to act. We find that AT&T's failure to furnish communications service under Contract Tariff 383 to each of these resellers is a willful, continuing violation of Section 201(a) of the Act of a duration exceeding at least ten days, thus implicating the statutory maximum.[21] Forfeiture

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[20] *See* Section 503(b)(1)(B) of the Communications Act, 47 U.S.C. § 503(b). Section 503(b) of the Communications Act states in pertinent part that "Any person who is determined by the Commission, in accordance with paragraph (3) or (4) of this subsection, to have–

> (B) willfully or repeatedly failed to comply with any of the provisions of this chapter or of any rule, regulation, or order issued by the Commission under this chapter . . . shall be liable to the United States for a forfeiture penalty.

[21] Section 312(f)(1) of the Communications Act provides:

> The term "willful", when used with reference to the commission or omission of any act, means the conscious and deliberate commission or omission of such act, irrespective of any intent to violate any provision of this Act or any rule or regulation of the Commission authorized by this Act or by a treaty ratified by the United States.

This definition applies to Section 503(b) of the Communications Act. *See Southern California Broadcasting Co.*, 6 FCC Rcd 4387 (1991) ([W]illful means that the licensee knew he was doing the act in question, regardless of whether there was an intent to violate the law.)

amounts for violations of Section 201(a) are not specified in the Act. Because of the apparently intentional nature of AT&T's violation and the fact that the violation was repeated with three separate entities and continued for some time, we believe a forfeiture of the statutory maximum amount of $1,000,000 is warranted consistent with factors set forth in Section 503(b)(2)(D) of the Act.

16. We also order AT&T to show cause why it should not be required to bring itself into compliance with Section 201(a) by remedying its failure to provide service to PSE and GECCS.[22]

IV. ORDERING CLAUSES

17. Accordingly, IT IS ORDERED, pursuant to Section 503(b) of the Communications Act, 47 C.F.R. § 503(b),

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> Section 312(f)(2) of the Communications Act provides:
> The term "repeated", when used with reference to the commission or omission of any act, means the commission or omission of such act more than once or, if such commission or omission is continuous, for more than one day.

This definition applies to Section 503(b) as well. *See* H.R. Rep. No. 97-765, 97th Cong. 2d Sess. 50-51 (1982).

[22] Under the circumstances, we do not believe it is necessary to specify the exact date on which AT&T's failure to provide service under Contract Tariff 383 became a violation of Section 201(a). Given the long delay since AT&T received the Tel-Save, PSE and GECCS orders, we need only to conclude that AT&T's failure to provide service upon reasonable request became apparent, at the latest, by a date six months after the date of the first order filed by any one of the three resellers, that is, by February 24, 1994, the date Tel-Save placed its order for service under Contract Tariff 383.

and Section 1.80 of the Commission's Rules, 47 C.F.R. § 1.80, that AT&T Communications IS HEREBY NOTIFIED of an Apparent Liability for Forfeiture in the amount of $1,000,000 for its continuing violation of Section 201(a) of the Communications Act, 47 U.S.C. § 201(a) by failing to furnish communication service upon the reasonable request of Tel-Save, Inc., Public Service Enterprises, Inc., and GE Communications Systems, Inc.

18. IT IS FURTHER ORDERED, pursuant to Section 1.80(f)(3) of the Commission's Rules, 47 C.F.R. § 1.80(f)(3), that AT&T Communications SHALL PAY within thirty (30) days of the release of this notice the full amount of the forfeiture ordered here in the manner provided for in Section 1.80(h) of the Rules[23] or SHALL FILE a response showing why a forfeiture should not be imposed or should be reduced.

19. IT IS FURTHER ORDERED that AT&T shall show cause why it should not be required to furnish service to Public Service Enterprises, Inc. and GE Communications Systems, Inc., under the terms and conditions of AT&T Contract Tariff F.C.C. No. 383 within thirty (30) days of the release of this Order.

20. IT IS FURTHER ORDERED that copies of this Notice of Apparent Liability for Forfeiture and Order to

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[23] The forfeiture amount should be paid by check or money order drawn to the order of the Federal Communications Commission. Reference should be made on AT&T Communications' check or money order to "NAL/Acct. No. 517TF0001." Remittances should be mailed to the Forfeiture Collection Section, Finance Branch, Federal Communications Commission, P.O. Box 73482, Chicago, IL 60673-7482.

Show Cause SHALL BE SENT by certified mail to AT&T's counsel, Francine J. Berry, Esq., AT&T Communications, Room 3244J1, 295 North Maple Avenue, Basking Ridge, NJ 07920.

FEDERAL COMMUNICATIONS COMMISSION

William F. Caton
Acting Secretary